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FOREIGN AFFAIRS

JANUARY/FEBRUARY 1999

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Depression Economics Returns

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The Global Aging Crisis

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What Sanctions Epidemic?

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Barbara Ehrenreich & Katha Pollitt on Fukuyama's Flaws, *John Bolton* on War Crimes Hysteria, *Theodore Sorensen* on Loyalty, and *Richard Lugar & James Woolsey* on the New Petroleum

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FOREIGN AFFAIRS

JANUARY/FEBRUARY 1999
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We face a threat more grave and certain than those posed by chemical weapons, nuclear proliferation, or ethnic strife: the "age wave." As life expectancy grows and fertility rates decline, senior citizens will make up an ever-larger share of the total population. The effects of this demographic shift will be staggering. It will come with a whopping price tag, which will place a massive burden on an ever-smaller working-age population. Economic, social, and even military policy throughout the next century will have to respond to this unalterable trend. Unless the West recognizes the challenges to come and devises a strategy to meet them, the future will be gray and bleak.

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Many economists hate to admit it, but today's economic turmoil shares some uncanny—or downright scary—similarities with the prelude to the Great Depression. Many policymakers seem to have unlearned the basic lesson of that calamity: boost demand in the face of an economic slowdown and reduce the volatility of capital flows. Rigid adherence to anti-inflationary policies will only deepen the crises in emerging markets. As the IMF continues to insist on fiscal austerity and many governments instinctively resist capital controls, a wider recession looms. With a distinct whiff of the 1930s in the air, we had better refresh our memories and relearn the basics of Depression economics.

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The articles in Foreign Affairs *do not represent any consensus of beliefs. We do not expect that readers will sympathize with all the sentiments they find here, for some of our writers will flatly disagree with others; but we hold that while keeping clear of mere vagaries* Foreign Affairs *can do more to inform American public opinion by a broad hospitality to divergent ideas than it can by identifying itself with one school. We do not accept responsibility for the views expressed in any article, signed or unsigned, that appears in these pages. What we do accept is the responsibility for giving them a chance to appear.*

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Comments

Sanctions remain a rarity—despite the myth being sold by the U.S. business lobby.

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What Sanctions Epidemic?

U.S. Business' Curious Crusade

Jesse Helms

In the past year, a handful of Washington business lobbyists have waged a blistering campaign to persuade the world that Congress has been engaged in a spasm of sanctions proliferation.

Reliance on unilateral sanctions, these lobbyists warn us, is a disturbing new epidemic. Their campaign has sparked dozens of news articles and editorials decrying the "sanctions frenzy" and castigating Congress' "voracious appetite" for sanctions. Normally responsible journalists parrot statistics—conveniently furnished by these business lobbyists—alleging that in the last few years the United States has placed anywhere from one-half to two-thirds of the world's population under the yoke of unilateral economic sanctions. *The New York Times* clamors that "more than 60 laws or executive orders authorizing sanctions . . . have been enacted in the last five years." Even President Clinton jumped on the antisanctions bandwagon, announcing in 1998 that the United States has gone "sanctions happy."

This is sheer nonsense. The statistics peddled by these lobbyists are grossly inflated and intentionally misleading. Half of the world is not living under American sanctions—nowhere near it. There is no epidemic. Congress has been cautious and circumspect, passing just a handful of carefully targeted sanctions laws. And unilateral economic sanctions are by no means new: they have been vital weapons in America's foreign policy arsenal for more than 200 years. I have been and continue to be a friend of American business. But the distortions spread by this small cabal of lobbyists in the name of American business are inexcusable. The time has come for a reality check.

LIES, DAMNED LIES, AND STATISTICS

The statistic has become conventional wisdom: in just four years the United States has imposed sanctions 61 times, burdening 2.3 billion people (42 percent of the world). That would be pretty awful, save for one thing—it is not true. These figures have been circulated by the antisanctions business group USA Engage, based on a study by the National Association of Manufacturers (NAM). They are a fabrica-

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SENATOR JESSE HELMS (R-N.C.) is Chairman of the Senate Foreign Relations Committee.

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tion. At my request, the Congressional Research Service (CRS) evaluated the NAM claim that from 1993 through 1996, "61 U.S. laws and executive actions were enacted authorizing unilateral sanctions for foreign policy purposes." CRS reported that it "could not defensibly" justify the number. "We find the calculation used in . . . the NAM study to be flawed, even if the specific [sanctions] were fairly characterized, which is not always the case," CRS concluded.

How did NAM come up with 61 sanctions? The study alleges that 20 laws were passed by Congress and 41 were imposed by presidential action. This is a gross distortion. Nearly three-quarters of the congressional measures were not sanctions at all but conditions, limitations, or restrictions on U.S. foreign aid. One measure placed conditions on assistance to the Palestine Liberation Organization. Another barred aid for military or police training to Haitians involved in drug trafficking or human rights abuses. One "sanction" blocked assistance to countries knowingly harboring fugitives wanted by the international war crimes tribunals for Rwanda and the former Yugoslavia. Still another prohibited Defense Department aid to countries supporting terrorists. Are these the measures that NAM and USA Engage want Congress to curtail? Let's hope not.

But what about those 41 "sanctions" imposed by the executive branch? Five are not unilateral, as NAM charges, but rather represent U.S. compliance with U.N. Security Council sanctions—multilateral, by definition. In seven cases, the NAM study counts the same sanction repeatedly, identifying it each time as a separate sanction. For example, the measure declaring Sudan a terrorist state is counted five different times. NAM lists two cases when no sanction was ever imposed, including a November 1994 executive order that even NAM concedes in fine print "did not impose any specific new sanctions on any countries." Eight cases represent mere restrictions on U.S. foreign aid. Five are limited bans affecting only military exports to Zaire, Nigeria, Sudan, Haiti, and Angola. Thirteen affect only a specific foreign company or person—not an entire country, not an entire industry, but one specific entity—for example, banning imports from the Chinese Qinghai Hide and Garment Factory for its use of prison slave labor or seizing the assets of individual Colombian drug traffickers.

These actions are obviously not what most people think of as "sanctions." They think instead of broad trade bans affecting whole countries, entire industries, vast populations, or access to large markets—not conditioning U.S. foreign aid, blocking imports from a single prison factory in China, seizing the assets of drug barons, or halting the sale of lethal weapons to terrorist states.

The claim that 42 percent of the world's population has been affected is also bogus. The study lists the entire population of the former Zaire (now the Congo) as being under U.S. sanction because the United States barred sales of defense items to the government. The same goes for China, Nigeria, Mauritania, and Pakistan, where CRS notes that such highly targeted actions "put the entire populations of these countries into NAM's calculation, even though most people . . . are not likely to experience significant impact from or awareness of [the] imposition." U.S. access to those countries' commercial goods-and-services markets remains unaffected.

What is the reality? Between 1993 and 1996, Congress passed and the president

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signed a grand total of five new sanctions laws: the Nuclear Proliferation Prevention Act of 1994, the Cuban Liberty and Democratic Solidarity Act of 1996, the Antiterrorism and Effective Death Penalty Act of 1996, the Iran-Libya Sanctions Act of 1996, and the Free Burma Act of 1996. During the same period, the president imposed just four new sanctions: declaring Sudan a terrorist state; banning imports of munitions and ammunition from China; tightening travel-related restrictions, cash remittance levels, and the sending of gift parcels to Cuba (restrictions that have since been lifted); and imposing a ban on new contractual agreements or investment in Iran. Nine new sanctions. That is it. The allegation of a sanctions epidemic is demonstrably false—a myth spread with the intention of misleading Congress, the American public, and the American business community.

UNMENTIONABLES

Even more telling is what the business lobbyists leave out of their inflated inventory of sanctions. As they rail against "unilateral economic sanctions for foreign policy purposes" (NAM's phrase), they conveniently omit discussing unilateral economic sanctions for *trade* purposes. Retaliatory trade sanctions are not mentioned by NAM and are not covered by the proposed Sanctions Reform Act—a stunning admission of the efficacy of sanctions. After all, if unilateral sanctions did not work, why on earth would business want to protect the U.S. ability to impose them in trade disputes? The ability to threaten and impose unilateral economic sanctions is a vital tool of U.S. trade policy, just as it is in U.S. foreign policy.

What these lobbyists really dislike is not the idea of sanctions themselves but the reason some sanctions are imposed. They tacitly admit that sanctions work but insist that sanctions are good only if they defend business interests, not national interests. According to the lobbyists, the United States should be hamstrung when a government proliferates weapons of mass destruction, commits genocide, tortures its people, or supports terrorists. But if that same government floods the American market with cheap television sets, America should throw the book at it. But, of course, the business lobbyists cannot say that, so they attempt to confuse the issue with cooked-up data and claims of an epidemic. They establish groups with clever monikers like "USA Engage," whose very name implies that those who disagree with them are isolationists. But what they really stand for is not engagement but mercantilism—an amoral foreign policy.

GOOD ENOUGH FOR THE FOUNDERS

Sanctions have always been an American foreign policy weapon. Economic sanctions were imposed by the American colonies against Britain in response to the Stamp and Townsend Acts, in both cases forcing their repeal. Jefferson and Madison both passionately advocated economic sanctions, believing not only that they were legitimate but that they should be America's primary diplomatic tools. In an 1805 letter to Jefferson, Madison argued, "The efficacy of an embargo . . . cannot be denied. Indeed, if a commercial weapon can be properly crafted for the Executive hand, it is more and more apparent to me that it can force nations . . . to respect our rights." Jefferson, for his part, contended that in foreign affairs "three alternatives alone are

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to be chosen from. 1. Embargo. 2. War. 3. Submission and tribute."

Jefferson is right. There are, indeed, three tools in foreign policy: diplomacy, sanctions, and war. Take away sanctions and how can the United States deal with terrorists, proliferators, and genocidal dictators? Our options would be empty talk or sending in the marines. Without sanctions, the United States would be virtually powerless to influence events absent war. Sanctions may not be perfect and they are not always the answer, but they are often the only weapon.

Unilateral sanctions, in fact, are the linchpin of our nonproliferation policy. According to a recently declassified analysis by the Arms Control and Disarmament Agency, "the history of U.S.-China relations shows that China has made specific nonproliferation commitments only under the threat or imposition of sanctions." Short of war, sanctions are the main leverage the United States has over China.

They have also played a crucial role in trade disputes. The threat of unilateral sanctions on China over intellectual property rights and unfair trade barriers has forced China several times to yield. In November 1991, the U.S. trade representative threatened $1.5 billion in trade sanctions if an intellectual property rights agreement was not reached by January 1992. Not surprisingly, such an agreement was struck on January 16, 1992. No wonder business lobbyists are so keen to retain unilateral sanctions in the trade arsenal—even as they campaign to remove them from our nation's foreign policy.

U.S. sanctions helped bring down the Soviet Union. They played a pivotal role in forcing communist Poland to release political prisoners and legalize Solidarity—sparking the collapse of communism. Our targeted Nigerian sanctions are beginning to bear fruit as the military government wearies of its pariah status. In Guatemala, the decision to freeze $47 million in U.S. aid (one of the "sanctions" that business is lobbying to curtail) and the mere threat of lost trade convinced business, labor, and military leaders to roll back President Jorge Serrano Elías' May 1993 coup. Swiss banks' recent decision to pay $1.25 billion in reparations to Holocaust survivors was a direct result of threatened sanctions, as admitted by the Union Bank of Switzerland.

Critics respond that sanctions have failed to bring down regimes in Iraq, Iran, Syria, Sudan, Libya, and Cuba. Perhaps—but they have effectively contained the Saddam Husseins, Mu'ammar al-Qadhafis, and Hafiz al-Asads of the world. Without sanctions, Saddam would now be threatening the world with VX missiles, Qadhafi would be blowing up U.S. passenger planes, and Asad would be planning terrorist operations against U.S. citizens. If this policy represents failure, it beats capitulation any day. As for Cuba, until 1991 the U.S. embargo was offset by $5 billion to $7 billion in Soviet subsidies. Only without them has the embargo begun to take a toll on Castro's regime. The moment the embargo kicked in, Castro's efforts to finance Marxist insurgencies stopped, allowing the nearly complete democratic transformation of the western hemisphere. Castro's regime is teetering; unless America gives up its leverage by unconditionally lifting the embargo, his successors will be anxious to exchange normalized relations with the United States for a democratic transition in Cuba.

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STAYING THE COURSE

When sanctions do not work, it is often because the target government doubts our resolve to keep them imposed. And with good reason: the Clinton administration views sanctions as domestic public relations tools rather than as foreign policy weapons. For example, President Clinton signed the Iran-Libya Sanctions Act live on CNN. But once the camera lights dimmed and the time came to implement it, he lost his nerve. This sent the message to Iran and other rogue states that the administration talks tough but caves in under pressure. It is the same with Cuba. After the Castro regime murdered four innocent people, including three Americans, by shooting down two civilian planes flying over international waters, Clinton made a bold speech for the cameras and signed the Helms-Burton law. Since then, he has done everything in his power to avoid enforcing it. Clinton has also gone to extraordinary lengths to avoid imposing sanctions on China for its missile proliferation, despite incontrovertible evidence from American intelligence that sanctionable activities have taken place.

Congress has given the president great flexibility in most U.S. sanctions laws. National-interest waivers let the White House temporarily or permanently suspend prescribed sanctions. Even so, when the administration feels Congress has set the bar too high for these waivers, it can get around it by, as President Clinton recently said, "fudg[ing] an evaluation of the facts." If anything, Congress has already given the president too much flexibility.

HANDCUFFING AMERICA

Ironically, those who criticize sanctions as a one-size-fits-all foreign policy propose a worse solution—the Sanctions Reform Act. This cookie-cutter legislation is no solution at all. Instead of providing greater flexibility on sanctions policy—the clarion call of the reform crowd—this law does the exact opposite by tying the hands of both Congress and the president.

The bill prohibits the president from implementing any sanctions for a mandatory 45-day "cooling-off" period. That may sound reasonable, but in practice placing a six-week shackle on all U.S. sanctions in every situation and circumstance is dangerous folly. Ponder one example: after Libyan terrorists blew up Pan Am flight 103, the United Nations spent months debating appropriate sanctions. Meanwhile, Libya divested itself of all its reachable assets, thereby avoiding the sanctions' impact. The Sanctions Reform Act would essentially afford other terrorist states the same courtesy. While the United States "cools off" for six weeks, terrorists, proliferators, and dictators will take evasive measures—quietly divesting assets, concealing evidence, and finding safe haven for fugitives.

The Sanctions Reform Act would also impose a mandatory two-year "sunset" on all new U.S. sanctions. Another bad idea. A two-year sunset writes "sanctions fatigue" into law, sending the target state a clear message: hunker down and wait out the storm since U.S. resolve will collapse on a fixed date. The bill also mandates the "sanctity of contracts." Again, this sounds reasonable, but it is not. What happens if a U.S. company contracts to sell militarily sensitive technology to a country that suddenly tests a nuclear bomb (India, Pakistan), invades a neighbor (Iraq), engages in genocide (Serbia), or commits an act of terrorism (Iran, Libya)? The Sanctions Reform Act would prevent the United States

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from breaching the contract by stopping those militarily sensitive sales.

None of this means that the United States should never protect existing business contracts with sanctioned states. In most cases, it does just that. The Clinton administration's recent executive order imposing new sanctions on Iran bars only "new investments and contracts." The Helms-Burton law affects only those investments made in stolen U.S. properties in Cuba after the date of its enactment. But Congress and the White House should decide these matters case by case and not be tied down by a mandatory provision that could have unintended consequences.

Congress already has a system for considering U.S. economic sanctions. It is called congressional debate. Each sanctions law is considered carefully, every provision is debated openly, and varying levels of flexibility are written into the law. Business gets a chance to weigh in, as do other constituencies. In the end, the president can veto any law. And Congress can always go back and amend sanctions if necessary—as it just did with India and Pakistan. The system the Founders established to decide such matters works just fine. It does not need "reform" inspired by a "sanctions epidemic" fabricated in some Washington lobbying firm's offices.

SELLING THUMBSCREWS TO TYRANTS

Why have some American companies invested so much in fighting sanctions? In Europe, business and government opposition to sanctions is understandable. Slumping welfare-state economies and double-digit unemployment drive Europeans to employ increasingly trade-obsessed foreign policies. But American business has no such excuse. Thanks to the vigilance of congressional Republicans, they have not been saddled with high taxes and regulations. The U.S. economy is booming, and unemployment is at an all-time low.

The lobbyists' cry that sanctions cost the United States vital access to large markets is a sham. The cost of U.S. sanctions is minuscule. According to Jan Paul Acton of the Congressional Budget Office, "to date, the cost of existing sanctions to the overall economy has been quite modest. CBO's review of research indicates that the net cost may be less than $1 billion annually. That compares with $6.6 trillion of total national income in 1997." The United States *gave away* roughly $13 billion in foreign aid during 1997. Besides, cutting foreign aid to punish misbehavior actually saves taxpayers' money. Even if we use the business lobbyists' standard tactic of applying costs to entire populations, the price tag for U.S. economic sanctions comes to a whopping $3.77 per American—about the cost of a Big Mac and fries.

That is a small price to pay for a moral foreign policy—and a price most Americans are willing to bear. A 1998 *Wall Street Journal*/NBC News poll taken on the eve of the president's visit to China showed that less than one-third of Americans agreed that "we should maintain good trade relations with China, despite disagreements we might have with its human rights policies." Fully two-thirds of Americans agreed that "we should demand that China improve its human rights policies if China wants to continue to enjoy its current trade status with the United States."

This may shock the business lobbyists. It should not. Americans do not need to sell their souls or their national security to create jobs and economic prosperity. The lobbyists behind this antisanctions

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crusade are saying, "If you can't beat 'em, join 'em." America cannot stop rogue states from acquiring weapons of mass destruction, they say, so why cede markets for sensitive technology to our European competitors? The United States cannot stop dictators from torturing people, so why not close our eyes and trade with them as if nothing is happening? That is not the American way. Americans do not need to create jobs by selling thumbscrews to the world's tyrants.

U.S. policies should isolate terrorist regimes like Iran, Iraq, Libya, Syria, and Cuba. U.S. aid should not go to countries that commit genocide, harbor war criminals, support terrorism, or export illegal drugs that poison American children. Lethal weapons should not be sold to violent regimes in Nigeria and Sudan; assets of drug traffickers should be seized; imports from Chinese companies that use prison slave labor should be banned; and government procurement contracts should not be given to foreign companies that sell dangerous technologies to terrorist states. There should be sanctions on companies and governments that proliferate nuclear, chemical, and biological weapons and countries that murder women and children and pile them into mass graves. America should not hesitate for one second to place a cost on these reprehensible acts and to restrain those few American companies who would actually conduct business with the perpetrators of such heinous crimes.

With their antisanctions crusade, these lobbyists are fighting for business as usual with thugs, tyrants, and terrorists. They do not represent the views of the American people or most American businesses. They should be ashamed.

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Loyal to a Fault?

The Presidency and Fealty's Limits

Theodore C. Sorensen

Anyone personally appointed by the president of the United States to a position of high trust and responsibility in foreign and defense policy swears to uphold the Constitution and laws of the United States, has the FBI confirm his or her patriotism, and accepts a good-faith obligation as a public servant to serve the interests of the American people. But that is not all. Senior appointments entail an obligation of loyalty to the president who appointed you. That is not the same as unlimited allegiance, much less subservient obedience or blind faith. It does not exclude other obligations to Congress, the taxpayers, or one's department. But it is an obligation, nevertheless—one that, once accepted, should not be lightly abandoned.

This charge is more than a legal obligation arising out of an employer-employee relationship. It is even more than loyalty to an impersonal administration or "team," though that may well be part of it. Conversely, it is more than a matter of friendship, for it applies equally to those who have a close relationship with the president and those who do not. It is essentially a moral commitment to that president as president, to respect his leadership, reciprocate his confidence and trust, and faithfully support his final decisions, even—or especially—when they are under attack.

Questions about the meaning and limitations of loyalty to the president were raised anew by the recent legal and political imbroglio in Washington arising out of President Clinton's sexual misconduct. In a futile effort at concealment, he lied not only under oath and to the public but also to his cabinet and White House staff. His secretary of state, secretary of the treasury, and other top aides were in effect dispatched to repeat his denials to the news media, the grand jury investigating his activities, and representatives of foreign governments. Several months later, when the truth was out, their pain was palpable.

Yet not one appointee resigned. Reportedly, only one mildly rebuked the president. Several told others of their sense of betrayal,

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sorrow, shame, or anger over their forced grand jury appearances—but almost never spoke publicly to the press. Some appointees were deemed "gullible" for believing him, "gutless" for not leaving him, or "foolishly loyal" for remaining silent. Yet former Clinton appointees who spoke negatively to the press about his actions were labeled "ungrateful and disloyal."

The resulting commentaries on loyalty to the president can be divided into two schools. One maintains that loyalty in general is an antiquated trait that has largely fallen into disuse. Evidence of this proposition abounds. In the more cynical, materialistic 1980s and 1990s, few pay attention to such lofty concepts as honor, steadfastness, and fidelity. A more mobile workforce has become accustomed to slipping the bonds of devotion to former mentors, employers, and friends and finds time only for acquaintances. Children no longer grow up unshakable fans of "hometown" sports teams because they seldom have a "hometown," and the star players—and even the franchises themselves—leave to pursue greater riches elsewhere. Memoirs betraying the secrets of former confidants, spouses, or lovers have been highly successful; unsurprisingly, books by recent administration officials have not all been discreet, much less supportive.

Years ago, loyalty to the chief was both taught and enforced by big-city political organizations built on unswerving fealty to the local leader and the patronage, promotions, and perquisites that came with it. Among federal employees in the pre–civil service days, William Howard Taft once wrote, "even the humblest charwoman . . . felt a throb of deep personal interest in the political health of the President." But today's political organizations are too weak to provide any meaningful reward or inspiration for the faithful, much less any discipline for those who are not.

The other current school of media commentary finds the principle of loyalty to the president not so much forgotten and underutilized as all too present and overrated. Loyalty is derided as a Mafia-like code of silence that prevents current and former advisers from criticizing unconscionable presidential actions—an instrument of "political serfdom" that stifles disagreement within an administration and keeps appointees from either resigning in protest or speaking out in public. Kai Bird's recent book on the Bundy brothers and Vietnam criticizes them and other "wise men . . . so steeped in the Establishment's culture of discretion that values loyalty over dissent" that they could not break with President Johnson on Vietnam or publicly disagree with him even after leaving office. "In short," Bird writes, "the Establishment had a problem speaking truth to power." Robert S. McNamara was similarly accused of "misguided loyalty" for withholding his doubts about the winnability and morality of the Vietnam War even after he left the Department of Defense for the World Bank.

LOYALTY DOWN

But passion over either the Clinton follies or Vietnam should not blind us to the long-term value of loyalty. Loyalty is indispensable to an organized society and to orderly and effective governance. No American president can provide consistent direction in foreign affairs if he cannot depend upon those who accept his trust to also accept his leadership.

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AP/WIDE WORLD PHOTOS

Standing by their man: Madeleine Albright and other cabinet members affirm President Clinton's denial of an affair with Monica Lewinsky, January 23, 1998

No president should need to spell out this obligation to his new appointees; he has every right and reason to assume it is part of their instinctive morality and institutional duty. Presidential aides expect and deserve it from one another to deter leaks, backbiting, and factionalism. The very concept of "public service" requires it from all who put their personal interests aside to serve. The framers of the Constitution, having rejected the notion of an executive council directing the president, assumed his subordinates would support him. "Everyone else in the executive branch," as President Truman once put it, "is an agent of the president."

But there is a difference between a loyal agent and a fanatical zealot—or a servile puppet. All obligations of principle have practical conditions and limitations, and that includes the principle of loyalty to the president. As a new appointee, you have a duty to support, protect, and defend his interests, success, and agenda even on those occasions when they are inconsistent with your interests, success, and agenda. But that does not require you to "fall on your sword," go to prison, or endanger your life or that of others. You are not expected to forswear commitments to country and conscience, to family and faith. Your obligation to keep

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his secrets is not an obligation to tell lies, especially under oath. Your commitment to his every cause does not oblige you to conspire in any crime.

If loyalty does not require zealotry, neither does it require sycophancy. Neither the president nor the presidency is well served by a toady intimidated by the atmosphere of "fear and fawning" surrounding the Oval Office. An adviser must be more than an uncritical admirer. Eagerness to concur must not repress the qualities of mind and character that caused you to be appointed in the first place. Your duty is not to please the president but to help him—bringing him your best judgment even when it is harsh, the whole truth even when it hurts, and all the choices even when they are hard.

Moreover, loyalty to the president, if it is to endure, must be reciprocal. A president under fire who blames his appointees for his failures or shames them in front of their peers is far more likely to find his aides undercutting him with unattributed comments to reporters and his former appointees distancing themselves from his troubles than a president who has consistently shown "loyalty down" by defending his aides in public, reassuring them in private, and protecting them against attacks from Congress or the press. "The relationship," wrote Dean Acheson, secretary of state to a president conspicuous for showing "loyalty down," must be one of "solid mutual respect based upon recognition by each that the other is wholly straightforward, loyal and living up to his full obligation."

That says it all. No president is required to tell any of his appointees everything, but he cannot long retain their trust if he tells them lies. No president is required to be right every time, but he has no right to risk the very principles that drew his subordinates to him. No president is required to accept any aide's advice on any particular issue, but he risks resignation or revolt if he rejects that advice without ample explanation of his reasons and careful consideration of that adviser's core values.

SPEAKING TRUTH TO POWER

One's core values will ultimately test whether one's loyalty to the president is more than kind words. The obligation to accept his final decisions is not limited to those about which you do not care or with which you do not disagree. Living with deep-seated disagreement and disappointment is an inevitable part of the job. In John F. Kennedy's first hundred days, those appointees appalled by his "green light" for the Bay of Pigs disaster were confident it would prove an aberration.

Despite checks and balances, the American system entrusts enormous decision-making authority to the presidency. That grant of power is justified and conditioned on one fundamental fact: its occupant is elected by all the people. Perhaps on some critical issue, an aide is certain that the president was wrong and the aide right. But, as the old question goes, who elected you? The president alone bears the final responsibility, and he receives information, advice, options, and political considerations of which you may be unaware. As Max Frankel once wrote of McNamara, however great his brilliance, he was "not a sun but only a reflecting planet."

Loyally accepting a presidential decision with which you profoundly disagree does not require a surrender of your rights or values. Within the limits of loyalty, you

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can continue to voice your doubts and dissents privately to the president, "speaking truth to power" as George Ball did on Vietnam. You can ask that you not be assigned to defend that which you consider indefensible—a request that serves the president's own interest, for you may be unable to defend it credibly and effectively. Or you can swallow your disapproval, confide your disquietude only to your diary and distant memoirs (not in leaks to the press or in disgruntled administration cabals), and stay at your post, remaining ever hopeful that this too will pass, that on most important issues within your jurisdiction the president has earned your support, and that your continuing to prod within his circle will do more to move him in the right direction than any public protest you might make. Clark M. Clifford, by carrying on as secretary of defense even as his doubts grew about Vietnam, helped steer President Johnson toward a negotiated exit. That is not a coward's rationale. Staying often takes more courage than leaving.

If, however, the president's decision involves so overriding a principle that you can no longer in good conscience continue to believe in his leadership, much less implement that particular decision, then it is neither dishonorable nor disloyal to quietly submit your resignation—not to continually threaten it, but to simply do it. Loyalty may induce you to postpone the effective date until after that particular crisis or the next election. It may induce you not to make public your discomfort for months, for years, or forever, depending on the urgency of the issue and the prospects of changing the president's course. But it cannot and should not compel you to stay when your heart is no longer in your job.

THE PRICE OF LOYALTY

That is not an easy decision. Resignations in public protest are relatively rare in America—partly because the departing official is reluctant to hand a cudgel to the nation's or the president's foes and partly because he knows that such dramatics usually have little lasting effect. Some Johnson appointees quietly resigned over Vietnam. Cyrus Vance quietly resigned as Jimmy Carter's secretary of state over the ill-fated Iranian hostage rescue operation. But resigning with "a blast at the boss" was rarely an option for national security officials during the Cold War—even those who felt excluded, deceived, or bypassed by the White House—because of the need to demonstrate national unity and policy continuity to our allies and adversaries.

Moreover, unlike their predecessors, most modern cabinet members simply do not possess the independent national following or political base necessary to make a resignation in protest a turning point for either the president or the public. Oval Office aides who move from the candidate's election staff to the "permanent campaign" in the White House are still less likely to speak out against their employer, even after they move on.

Over the years, some White House advisers have confused loyalty to the president with loyalty to party. A presidential aide contemplating public resignation should consider its possible effect, however small, on a first-term president's reelection. But an appointee affiliated with the opposition party, a different wing of the president's party, or no party at all is subject to the same standard of loyalty as his most rabidly partisan supporters in the campaign. (No member of John F. Kennedy's cabinet was more loyal to the president

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than Secretary of the Treasury Douglas Dillon, a leading Republican contributor.)

Others confuse loyalty to the president with gratitude ("I owe him everything"). True, any president gives his appointees a unique opportunity for service that could enhance their later fame and fortune. But the same obligations of loyalty apply to those appointees whose prestige and professional standing predated the president's call and whose willingness to sacrifice the peace and perquisites of the private sector may well have made *him* the grateful one. Loyalty is not given in exchange for benefits received. The president appointing you is entitled to your loyalty as your leader, not your benefactor. That he has been generous, considerate, or cordial to you may be gratifying, but it is hardly determinative when principles are at stake.

Nevertheless, your moment of decision on the limits of loyalty—to object or acquiesce, to resign or stay, to speak out or keep silent—is likely to coincide with his moment of crisis; and abandoning a president of the United States in crisis is not a step one takes lightly. The president's troubles, even if self-inflicted, are the nation's troubles. It is a time not to jump ship but to help save it. A lawyer does not abandon a long-term client for ignoring his advice, withholding facts from him, or otherwise falling short of his standards. If you leave a president's side, you increase the weight of those who advised him differently than you, and you leave shorthanded those in the administration who share your convictions.

In appointing you, the president is promising that he will hear your advice, not that he will always heed it. He is promising you a post full of challenge, not a post free from disappointment. He is expecting not only your wisdom but also your loyalty. There is no way of knowing at what point, on what issue, that loyalty will be severely tested.

You may then be required to balance the principle of loyalty against some other principle you hold dear, the need to recognize the president's democratic authority against your individual convictions, his right to your support against your right to speak out, your prospects for helping to alter his course if you stay inside against your prospects for influencing that course if you move outside. You will receive conflicting advice from concerned friends, interested groups, and self-righteous columnists. If you cannot handle that pressure, better reconsider accepting the appointment.

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Squandering Triumph

The West Botched the Post-Cold War World

Charles William Maynes

Something has gone terribly wrong. When the Cold War ended, the era of struggle was supposed to end with it, and the period of peace and prosperity was to begin. For a time, optimism did prevail. The Warsaw Pact suddenly disbanded, the Soviet Union itself disintegrated, and Wilson won his nearly century-long ideological struggle with Lenin. Virtually everywhere, collectivism and centralization gave way to democracy and decentralization. Peace began to break out in the most unlikely places—bloody Central America, stalemated Southern Africa, traumatized Southeast Asia, and even the embittered Middle East. The world economy delivered a cornucopia of goods to the planet's peoples. No other country could now present a military challenge to the United States, which also seemed, in effect, the institutionalized stabilizer of the globalized world economy. Culturally, too, the world apparently was coming together. Other countries wanted to embrace American ways. They did not have to be forced to adopt them. The attractiveness of American society to others—a form of what the political scientist Joseph S. Nye, Jr. calls "soft power"—was also a force for peace.

The essay that best captured the mood of the day—an intense collective American desire for dominance without conflict—was Francis Fukuyama's controversial "The End of History?" He argued that with the end of the tense Cold War ideological battle, liberal democracy combined with open market economics became the only model a state could follow and would prevail everywhere. America could entrench its preeminence with scant effort. We would move into a boring age of economic calculation after a conquest both painless and profitable.

America's foreign policy over the last six years has been fundamentally Fukuyaman. Both government officials and most of the chattering class alike have believed that any government that failed to follow the lone path to the future would be left on the ash heap of history. With the end of communism, there was no conceptual alternative. Moreover, the global economy's forces were irresistible. Economic reform would bring political reform. Free trade,

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markets, and capital flows would democratize virtually every country in the world.

The policies of the Bush administration in its final years and those of the Clinton administration, for example, turned out to be remarkably similar. Both concentrated on domestic reform at the expense of international affairs. When the dramatic transformations in the Soviet Union and Eastern Europe took place, both Bush and Clinton decided that America's contribution would be largely advice, not aid. Both made reducing the federal deficit their highest priority. Except for efforts to contain Iraq, both were reluctant to get involved in foreign adventures.

In the past few months, Fukuyaman foreign policy has collapsed. As 1998 drew to a close, the international economic system was facing severe strains and even America, which experts had earlier pronounced secure, seemed threatened. The allies, who contributed so much to the Gulf War that the United States made a profit, were now more reluctant to grant U.S. actions automatic legitimacy and generous funding. They began to resist U.S. preferences in handling Iraq and felt America should foot the bill for NATO expansion.

Earlier confidence that strife was over also began to wane. Ethnic conflict disturbed the peace in one trouble spot after another. The comfortable belief that the nuclear powers could restrict the size of their club also suffered a rude shock when India and Pakistan inscribed their names on the membership roll.

The promise of international organizations in this new era was also fading. The International Monetary Fund (IMF) and World Bank stood accused of failing to prevent the economic collapse of Indonesia, Russia, South Korea, and Thailand. The United Nations was near bankruptcy because the United States refused to pay its arrears and others were unwilling to devote even a little of much-reduced defense expenditures to defending peace and security in other ways.

The reason for these setbacks, many totally unanticipated, is that since 1991 the United States has based its foreign policy on three key assumptions: that the invisible hand requires no guidance to bring the world stability as well as growth; that the major cause of ethnic conflict is evil leaders; and that the main military mission remains deterrence. Others in the West have followed the American lead. All three are false.

THE INVISIBLE HAND

During the Cold War several major governments bet on closed economies, while others opted for open economies. India, though a democracy, chose the former path. Indonesia, South Korea, and Taiwan, though dictatorships, chose the second. By the late 1980s the evidence was in. Open economies, even under dictatorial governments, perform better than closed economies, even under democratic governments.

Unfortunately, with the end of the ideological challenge from Moscow, this fundamental truth was transformed during the 1990s into an increasingly rigid ideology that blinded otherwise intelligent people to some of the inherent shortcomings of a free market. Economies all over the world were opened to the full blast of international competition, often before they were ready. The new orthodoxy's command of economics was better than its command of politics; it overestimated

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the power of logic in economics while underestimating the power of psychology; it was vulnerable to unanticipated shocks; and by neglecting the need to erect buffers, it discovered that failure's impact was not merely national or even regional but global.

A glance at the economies that have stumbled badly in recent years reveals the unstable political premises of the new orthodoxy. Most of the problem countries got into severe economic trouble precisely as they were facing a fundamental political challenge. Under political pressure, they postponed key decisions that might have lifted the economy out of its difficulties.

To begin with, the Mexican currency crisis of Clinton's first term erupted as Mexico was attempting a critical political transformation. The Institutional Revolutionary Party, which had totally dominated Mexican politics for decades, was attempting to steal its last election, this time with enough of a democratic façade to make an opposition victory possible. Pressures from abroad and at home were forcing a political opening. Unsurprisingly, the Mexican government failed to make tough decisions before the election that might have avoided the peso's devaluation.

Thailand also had the misfortune to face an economic crisis amid vital political change. Its parliamentary system came under increasing pressure from undemocratic forces. The trade surplus disappeared. With elections looming, the government hesitated to take decisive action. Rather, seeking political advantage, it increased government spending. The speculators sensed weakness and swamped the system.

South Korea's economy went into meltdown precisely as the country was facing the most profound political change in its postwar history, with the left poised to gain power for the first time. A conservative government fighting for its life could hardly be expected to take the tough economic decisions necessary to ward off the crisis.

The economic tidal wave next struck Indonesia, where the Suharto government clung to power by its fingernails. It knew that the reforms the IMF was urging would doom the regime. Small wonder Suharto resisted.

The crisis next hit Russia, where the Yeltsin era was coming to an end. Here again, political weakness enhanced the speculative challenge. The measures that the financial doctors were insisting were necessary for economic survival seemed politically toxic to Moscow. It resisted, and the pressure grew.

Brazil was next in line. Here again, the new orthodoxy proved prone to breakdown as much for political reasons as for economic shortcomings. As the *Financial Times* reported last September, though some might take comfort from the fact that Brazil was "too big" for the international financial system to let fail, the rescue effort was complicated by upcoming elections. The Brazilian government was reportedly determined not to ask the IMF for assistance until after the November balloting.

The pattern described above is no accident. The new orthodoxy's Achilles' heel is its faulty political foundation. Speculative pressures seem to converge on economies facing dramatic political change. Previously, such a pattern would have been of only academic interest, but in a globalized world one failure in one economy—even one as relatively small as Russia's—can send major shock waves throughout the now unprotected system, one in which all the firebreaks have been dismantled.

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Some may object that, while the globalized system may suffer from this political flaw, the IMF or the major financial powers have no choice but to press for politically different measures. The choice depends on the country, but in general, we should all recognize the unexpected political vulnerability of the new system and adjust accordingly.

Transition economies like Russia's cannot be treated like traditional free market economies. Last summer, the world offered Russia more loans to cope with its economic problems when the country's immediate need was for debt relief. Russia today is in the same position as Germany in the late 1920s. Then the world loaned Germany large sums of money that the country was unable to repay once economic conditions worsened. Disastrously, the world waited too long before finally coming up with the Young Plan to help lift that debt from Germany's shoulders. Russia, with the end of the Cold War, agreed to accept the burden of the Soviet debt, now more than half Russia's total debt. It also agreed to additional loans to support its reform program but now cannot repay either them or the old Soviet debts because commodity markets have collapsed after the Asian shock. At a minimum, Western countries should have recognized last summer the statesmanlike Russian decision to shoulder the Soviet debt and offered to renegotiate, delay, or cancel that debt out of awareness of the new adverse conditions created by slumping world commodity prices.

For years George Soros, the most successful of the new international financial titans, has been warning fellow investors and government officials that financial markets are—contrary to the confident assertions of the deans of the new orthodoxy—inherently irrational because they depend enormously on psychology and group behavior. In effect, in terms of their economic policy, governments must have perfect pitch. Few do. When errors are made—often because governments facing elections put down the tuning fork—investors notice and, as a group, begin revising their calculations.

The new orthodoxy is therefore unworkable. It requires that no one fail, but someone always will. When that happens, the globalized economy offers too few buffers, and the shock effect crosses continents. More buffers are urgently needed if we are to capture the benefits of an open economy without suffering devastating future traumas. We must create these buffers collectively, or states will create them individually.

EVIL LEADERS

The second failing of the post–Cold War era has been Western misunderstanding of the nature of ethnic conflict, which emerged as the new age's principal challenge. Every newspaper carried reports on struggles between minorities that even long-time students of international affairs never knew existed—the Abkhazians, the Ossetians, the Bosnians, the Gagauz, the different groups of Kurds.

Many American analysts responded by assuming that people wanted to live together but were thwarted by bad leaders or meddling foreign governments. Commentators suggested that the conflicts were fueled mainly by old communists anxious to stay in power. Obviously, there are plenty of evil leaders and meddling governments around the world, not all of whom were communist. Nevertheless, the problem of post–Cold

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War ethnic conflict is less one of bad leadership than of inadequate structures.

As the Berlin Wall was being pulled down, a Turkish diplomat remarked, "Now you Americans are going to understand the value of empires. So long as minorities have someone to whom they can appeal when they are in dispute, they can live peacefully together. When that arbiter is gone, they will be at one another's throats."

The wars in Bosnia and the Caucasus (and the Middle East for that matter) are terrifyingly intense because they are not struggles for gain or glory but for identity and survival. The combatants are trying to answer the existential question, Whose country is this? If it is mine, you cannot stay, and if it is yours, I cannot stay—or if I am allowed to stay, I must agree to accept a second-class status. Whether Catholics in Northern Ireland, Palestinians in Israel, Israelis in a future Palestine, Serbs in Croatia, or Croatians in Serbia, the lot of the loser in these wars of national identity—barring outside intervention—has been second-class status or exile. The same kind of struggle for identity and survival fuels the tension in the Caucasus between Armenians and Azerbaijanis and in Cyprus between Turks and Greeks.

Americans are closer to such wars for identity and survival than they realize. The struggle between white settlers and Native Americans had the same pitiless ferocity to it. In effect, when the settlers arrived, the Native Americans knew that the U.S. Army would not be far behind and that they would be cleansed from their own land. They would not have a country for much longer. Hence the savage nature of the struggle between the settlers and the Native Americans.

Can it be an accident that the most intractable ethnic struggles take place in parts of the globe where a few particularly aggrieved minorities have suffered unusually tragic historical traumas? The Armenians, Israelis, Palestinians, and Irish Catholics have all been the victims of historic mass catastrophes. Their determination to forge their identity is deeper than almost any other people's. The wars in the former Yugoslavia need to be understood in this context. The Serbs, as many have pointed out, seem to have embedded victimization in their very national identity. There is a reality behind the psychology. As the *Encyclopedia Britannica* entry on Yugoslavia notes, the massacre of the Serbs in World War II "was surpassed for savagery only by the mass extermination of Polish Jews." The struggle of the Basques also fits this pattern. Guernica, immortalized by Picasso after the German Luftwaffe first tested its terror techniques on a civilian population, is located in the land of the Basques. Upon victory, Franco's forces put more than 20 percent of the Basque population into concentration camps. His repression was ruthless.

These distressed peoples' harsh history does not excuse the brutal methods they have sometimes adopted to fight for their identity and survival. All the groups mentioned have resorted to terrorism, ethnic separation, and acts of aggression. But understanding their history can help outsiders appreciate that unless the quest for identity and group security is satisfied and the tragic history of these peoples taken into account, the struggle is likely to be very hard to contain.

Does the cruel nature of these conflicts mean that outside powers should avoid involvement? Not at all. If possible, we

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must try to break the cycle of victimization before the next generation embraces it. But the nature of these struggles does mean that outside involvement must provide reassurance for all sides, include psychology as well as diplomacy, and take historical grievances into account rather than simply declaring them irrelevant. In these cases, the pain remains too immediate for anesthesia to prevail.

The original American answer to the new outburst of ethnic conflict was to call for American-style democracy. Elections would replace bad leaders with good. But Anglo-Saxon democracy, with its winner-take-all character, is not an answer but a provocation. Our own history demonstrates this. After the Civil War, once federal troops were withdrawn, American-style democracy in the South meant a political system that suppressed blacks. For many years, the British only compounded the problem of ethnic relations in Northern Ireland through winner-take-all elections.

The ethnic groups struggling for identity today will not allow their struggles to be resolved by elections alone unless they are persuaded that they enjoy a majority of the electorate that votes or they have assurances regarding their future, which probably can only be guaranteed by some outside force. Finding a peaceful path for settling conflicts of identity that does not require outside intervention would be worthy of a Nobel Prize. Regrettably, no one has discovered that path. Sometimes, though, after many years of struggle, the contesting parties do tire and do seek compromise. That seems to explain what happened in South Africa and may be happening in Northern Ireland.

For ethnic conflicts between contestants who have not tired, however, the international community's most effective answer is imposing a foreign protectorate on the warring populations for their own good—as in Bosnia today and perhaps Kosovo tomorrow. In Bosnia, a ranking American civilian, Jacques Klein, publicly states that the NATO troops now providing a de facto protectorate will be there forever. The highest-ranking civilian, Carlos Westendorp, the Spanish diplomat dubbed "Bosnia's viceroy" by *The Economist*, announces the more modest goal of 15 years.

If the United States and its allies wish to deal with particularly intense ethnic conflicts, they must understand their traumatic underlying causes. They must then ask the following questions: How many protectorates will the international community support financially and militarily? Where will it support them? The former Soviet Union is full of ethnic groups that have suffered extraordinary trauma.

THE END OF DETERRENCE

Finally, the West continues to rely on military deterrence. At the end of the Cold War, the United States had the world's most powerful military, one that paradoxically grew stronger daily by simply standing in place and watching the Soviet military machine melt away. Its armed forces towering over all others like a colossus, the United States nevertheless keeps its military roughly at Cold War levels and has even begun to extend its reach through NATO expansion and U.S. leadership in NATO's Balkan operations. U.S. nuclear submarines never slowed their vigilant patrols off Russian shores.

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Thousands of NATO missiles remain targeted on the collapsing institutions and impoverished people of Russia. It is as if the Berlin Wall still stood.

What Western military leaders have still not grasped is that the uses of force have changed in much of the world, including the areas where they are most immediately involved. Throughout the Cold War, force was needed to deter the other side from doing bad things outside its borders. Today force is needed to compel the other side to do good things inside its borders. The difference is fundamental. Deterrence is mounted along borders; compellence is undertaken within borders. Deterrence is a military task; compellence is a police function. Deterrence creates alliances; compellence breeds protectorates.

Moral considerations obviously play a growing role in international affairs. They should. Americans must not, however, lose sight of the underlying national security issues involved in many ethnic struggles. Take Kosovo, where NATO is poised to intervene because of widespread outrage over the Serbian army's brutality in its attempt to crush the province's Albanian rebels—a potential bombing in the name of humanitarianism. The critical national security issue, however, is whether Europe can or should accept a larger Albania, and if it cannot, how to prevent this. On the eve of World War II, Serbs made up nearly 40 percent of Kosovo's population. Large wartime deportations of Serbs, Tito's decision not to allow them to return in a vain effort to lure Albania into a Balkan communist federation, and a much higher Albanian birthrate have set in motion a process that can only lead to an independent Kosovo. If the process is to be stopped, who will provide the force to do so? Belgrade or Brussels? Serbia's army or NATO? If we conclude that a Europe at peace can stand neither, in effect, a greater Albania nor a brutal Serb repression, we must recognize the need for a protectorate over Kosovo, as much for reasons of national security as of human rights.

The core nature of ethnic conflict has profound implications for the perennial debate about the size of the U.S. defense budget. Some armchair strategists, seeing America without a serious challenge, now call for massive increases in the Pentagon's budget to lock in America's current international preeminence and convert it into hegemony. They do not propose to reform the U.S. military; they simply want more of it. Answering their call would be wasteful and would provoke a popular backlash. If the purpose of force is now more to control than to deter, are the American people prepared to see their young men and women make the supreme sacrifice in the name of controlling others rather than defending ourselves? British and French families in the last century were willing to make such sacrifices because they had imperial ambitions. Are we? If not, we probably need to create special military units that will volunteer for such duty.

The current configuration of U.S. forces is of dubious use against today's new security threats. How does maintaining thousands of nuclear weapons and the nuclear triad help fight ethnic conflict or terrorism? Does airpower really work in these cases? Many believe, for example, that NATO bombing helped bring the Bosnian Serbs to the table at Dayton. This is a myth. As Carl Bildt, the former Swedish prime minister and the person in charge of the civilian side of the Dayton

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Accord, has pointed out, the Bosnian Serbs agreed to negotiate once the United States accepted the creation of a separate Serb entity within Bosnia called Republika Srpska—a concession made before the bombing ever started. The likely audience for the bombings, it appears, was not the Bosnian Serb negotiators but Bosnian Muslim public opinion. After the horrors the Muslim population had suffered, seeing the Bosnian Serbs punished may have helped persuade the authorities in Sarajevo to come to Dayton. But simply because NATO airpower was politically useful does not make it effective in security terms against the type of ethnic fury that sundered Yugoslavia.

A VISIONLESS WEST

The depressing results of following these three false assumptions are an urgent goad to recast Western post–Cold War foreign policy. The West must show greater imagination and historical understanding in almost every field.

First, the West must finally recognize the need for reform of the world's economic institutions. Simply expanding the free market is not enough. Second, the West must rethink the reform of world political institutions. It can no longer simply work to consolidate Western privilege. Finally, the West must address the age's new military needs. In its antiquated security doctrines, the West is rather like a homeowner who was robbed and then buys a couple of beautifully trained watchdogs, even though his house's new problem is termites.

The West still faces an extraordinary opportunity. Rarely in history do most major powers proclaim allegiance to one political and economic model, which happens to be our own—one which, if properly regulated, can bring enormous benefits to humanity. It is equally rare that all the great powers essentially endorse the status quo, which happens to favor us. Indeed, for the first time ever, all major powers prefer internal development to foreign expansion. It is also the first time that communications make possible citizen-to-citizen contact on a truly global basis—and those citizens not only speak to one another largely in English, but they use reassuringly familiar Western concepts.

The United States and its allies could still seize this opportunity. To do so, however, will require a larger vision of the future than Western leaders have displayed in the 1990s. In the time remaining before the millennium ends, the West will not continue to have the luxury of standing pat.

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Essays

Castro's troops with dead rebels, Playa de Giron, Cuba, 1961

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The Rollback Fantasy

Daniel Byman, Kenneth Pollack, and Gideon Rose

AN IRAQI BAY OF PIGS

FOUR DECADES AGO a Third World dictator threatened American interests in a crucial region. Unwilling to pay the costs of an invasion or settle for containment, U.S. policymakers convinced themselves that a cheap and easy third option existed: support for some of the dictator's domestic opponents, whose efforts would supposedly spark a popular uprising and topple the regime. The resulting invasion attempt by Cuban exiles at the Bay of Pigs turned into one of the worst fiascoes in the history of American foreign policy.

Incredibly, a similar concept—using the Iraqi opposition to overthrow Saddam Hussein—is one of the hottest foreign policy ideas in Washington today. From congressional leaders to a galaxy of former government officials, from *The Weekly Standard, National Review,* and *Commentary* to *The New Republic* and columnists at *The New York Times, The Washington Post,* and *The Nation,* support for the Iraqi opposition has become the leading alternative to the Clinton administration's current policy. One recent letter urging the president to back Saddam's foes more strongly was signed by three former Republican national security advisers, three former Republican secretaries of defense, and seven former Republican subcabinet officials; another prominent supporter of the idea has been Clinton's first CIA director, R. James Woolsey. As a result, in October Congress

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hurriedly embraced an Iraq Liberation Act authorizing $97 million in military aid to democratic Iraqi resistance groups. The president's staff was unenthusiastic, but Clinton signed rather than pick a fight. And after yet another showdown with Iraq over U.N. weapons inspections last November, the president himself jumped on the bandwagon by touting the administration's "engagement with the forces of change in Iraq" and its intention to work for "a government in Baghdad—a new government—that is committed to represent and respect its people, not repress them."

The basic idea behind the boomlet is simple: The United States should refuse to accept the continued rule of Saddam Hussein and help install the Iraqi opposition in his place. As Senate Majority Leader Trent Lott (R-Miss.) put it, "The doctrine here has to be rollback, not containment." In *The New Republic,* former Under Secretary of Defense Paul Wolfowitz wrote, "Toppling Saddam is the only outcome that can satisfy the vital U.S. interest in a stable and secure Gulf region, because, to a degree unique among contemporary tyrannies, the Iraqi regime is Saddam Hussein. . . . The vast majority of Iraqis want him out, though only those with a death wish say so openly. We must help them." Moreover, Saddam could supposedly be replaced at relatively low cost—even, many advocates argue, without committing American ground troops. The world could be free of Saddam, Wolfowitz argued in testimony before Congress, if the Clinton administration would only "muster the necessary strength of purpose."

The fly in the ointment is that this is simply not true. Even if rollback were desirable, any policy to achieve it would have to pass three tests to be considered seriously. It would have to be militarily feasible, amenable to American allies whose cooperation would be required for implementation, and acceptable to the American public. All current rollback plans involving the Iraqi opposition come up short. Those who tout these nostrums as superior to existing U.S. policy are therefore either engaging in wishful thinking or cynically playing politics. Either way, for the United States to try moving from containment to rollback in Iraq would be a terrible mistake that could easily lead to thousands of unnecessary deaths.

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THE AIRPOWER APPROACH

CONTRARY TO the impression sometimes given by backers of the Iraqi opposition, there is no single, simple rollback plan. Instead, three competing variants of the idea have been put forward: using airpower to oust Saddam, helping the opposition seize large chunks of Iraq, or sponsoring a guerrilla war by his foes.

The first—the airpower approach—would have the United States and the opposition team up for a decisive military campaign against the Iraqi regime. The problem here is that almost all the heavy lifting would have to be done by the United States, which would incur huge costs without being assured of success in return.

The airpower approach calls for the United States to help the Iraqi opposition recruit, train, and equip tens of thousands of soldiers for limited conventional warfare. When this opposition army was ready to take the field, the United States would launch an air offensive against Saddam's forces to devastate Iraqi combat formations, logistics, command and control, and rear-echelon positions. The opposition troops would creep forward in the wake of the aerial onslaught, forcing Saddam's troops to concentrate for battle and thus become an even better target for destruction from above. As the defending forces retreated or broke up, the opposition would occupy more and more territory, eventually marching virtually unimpeded to Baghdad, where it would set up a new regime.

This plan has two advantages. First, it correctly acknowledges that defeating Saddam's armed forces will be difficult and that the Iraqi opposition cannot do the job without extensive U.S. military support. Second, the plan might be acceptable to American allies, who have sometimes suggested that they would be willing to support a policy to remove Saddam if they were convinced it would be carried through to completion. Although friends of the United States in both Europe and the Middle East have generally opposed the use of force against Iraq during recent crises, few would be sorry to see Saddam go as long as regional stability was not greatly disrupted and national borders remained unchanged. They might just accept his removal by force if the United States insisted on it.

The catch, however, is that the plan requires a truly massive U.S. air campaign, and even then an opposition victory would be unlikely. True,

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Iraq's conventional military capabilities are now extremely limited, and Iraqi forces could offer only token resistance to American or other Western forces. Those same units, however, would be a formidable adversary for the Iraqi opposition. The Iraqi military currently keeps 400,000 men under arms, including almost 100,000 in the Republican Guard and the Special Republican Guard. Saddam also has 2,000 tanks and 2,100 artillery pieces. Lightly armed opposition troops would stand little chance in open combat against these forces, especially the Republican Guard. As such, for this plan to work the U.S. air campaign would essentially have to destroy all organized Iraqi military resistance. This would require an enormous and costly effort over several months, probably on a scale approaching that of the air campaign in the 1991 Gulf War.[1] Although the American people strongly oppose Saddam's regime, they would probably not support a long, bloody campaign against Iraq without an obvious goad other than U.S. frustration.

[1] Even under the generous assumptions that only 12 of Iraq's 23 divisions would actually fight (6 army and 6 Republican Guard) and that each division could be effectively destroyed with 500 air sorties, it would take 6,000 sorties to deal with these units alone. About the same number would be required to attack Iraqi military installations, logistical support, and tactical command-and-control assets—a combined total of 12,000 sorties, or just over half of the 22,000 flown against similar targets by coalition aircraft during the Gulf War.

An air campaign supporting an Iraqi opposition ground offensive, however, would require significant attention to other targets that were not high priorities in Desert Storm. The United States would have to stop periodic counterattacks by Iraqi heavy divisions against the lightly armed opposition formations. It took 1,000 sorties to beat back one such counterattack by two Iraqi heavy divisions at Khafji in January 1991, and the Iraqi forces lived to retreat and fight again during the ground war. Even assuming rather hopefully that improved American munitions and weakened Iraqi morale would halve the number of sorties required for similar operations this time around, the need to defeat several Iraqi counterattacks while watching and preparing for others could easily bring the total number of strikes up to the Desert Storm level.

The air campaign would also have to include other combat and support missions such as fighter cover, suppressing enemy air defenses, Scud hunting, aerial refueling, and transport. In Desert Storm the 22,000 strikes against Iraqi tactical ground forces were part of a total air campaign of 111,000 sorties. This time around the ratio would be lower because the United States would not need to strike the same range of strategic targets—but not by much, since this operation would have to last longer. U.S. air forces would have to pummel a handful of Iraqi units for weeks until they cracked, wait for the opposition forces to move in and brace themselves for counterattack, then start pounding the next set of Iraqi ground formations, and so on. The campaign's pace would also be dictated by the weakness and inexperience of opposition units. Because Iraqi targets and combat formations would have to be kept suppressed and dispersed for months, the air campaign in question would probably require 80,000 to 100,000 sorties in total.

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Airpower alone has never forced a rival regime to capitulate. Few Iraqi units actually fell apart or surrendered en masse even under the pounding they took in Operation Desert Storm. Those that did crack did so partly out of fear of the impending coalition ground offensive, a fear the much less menacing opposition forces would not inspire. And no Republican Guard divisions cracked, although several were subjected to more than a thousand bombing sorties apiece. In short, it is at best unproven and at worst foolish to argue that U.S. airpower alone could eliminate Iraqi ground forces and enable the opposition army to march on Baghdad virtually unopposed.

The plan, moreover, would still require the opposition to capture Iraq's cities from the regime's armed forces. Opposition troops would have to fight these battles largely on their own, because it would be difficult for U.S. planes and missiles to destroy Iraqi ground units hiding in the concrete jungles of modern cities and because U.S. rules of engagement would prohibit bombing urban areas to limit civilian casualties. Even battered Republican Guard divisions would be too much for the weak opposition forces to handle in urban combat. Saddam's foes would probably lose on the ground even if the United States were to devote a massive air campaign to aiding them.

Finally, the airpower approach might lead Saddam to unleash his chemical and biological weapons—his jealously guarded ace in the hole—against the United States and its Middle Eastern allies. Saddam was never close enough to being toppled during the Gulf War to use these weapons of last resort. Slowly pushing him to the wall would give him every reason to lash out with his entire arsenal, while removing all incentives for restraint.

This plan, in short, involves fighting a preventive war against Iraq from a standing start but using opposition troops instead of U.S. ground forces. Its costs and risks would make this an extremely grave and unpopular endeavor, even if it were sold as a way to settle the problem of Saddam once and for all. What backing there was would dwindle further when it became clear that the plan's supposed decisiveness—its greatest selling point—was questionable. The opposition might well lose, leaving the administration with the agonizing choice of either leaving Saddam to crow over his escape, continuing the heretofore futile air campaign until the rubble bounced, or sending U.S. troops

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to occupy Baghdad. Attempting rollback by relying on airpower, then, would be incredibly risky and more likely to box in Washington than liberate Baghdad.

THE ENCLAVE APPROACH

THE SECOND rollback option would have the United States help the opposition umbrella group known as the Iraqi National Congress (INC) seize and hold large enclaves inside Iraq, from which it would proceed to undermine Saddam's rule. This plan, however, is militarily ludicrous and would almost certainly end in either direct American intervention or a massive bloodbath.

The enclave approach calls for the United States to declare the INC the legitimate government of Iraq, provide it with the Iraqi regime's frozen assets, and help it recruit, train, and equip a highly mobile light infantry force of 10,000 to 20,000 troops, most of whom would be former Iraqi military personnel. These forces would then invade and occupy Iraqi Kurdistan, in the country's north, and all of Iraq west of the Euphrates River and south of the 32nd parallel, which would collectively be declared "Free Iraq." The United States would lift economic sanctions on these zones and use airpower to help defend them from Iraqi counterattacks. By providing a haven for defectors and reducing Saddam's area of control to the Mesopotamian river valleys, Baghdad, and some of the northwest, the INC argues, this strategy would either make the Iraqi regime disintegrate or leave it vulnerable to an independent INC military campaign.

The INC has suggested that the entire operation would cost little, take only a year or two, and require such scant direct U.S. military involvement that there would be almost no risk of substantial American casualties. As the INC's president, Ahmed Chalabi, told a Senate hearing last spring, "Give the Iraqi National Congress a base protected from Saddam's tanks, give us the temporary support we need to feed and house and care for the liberated population, and we will give you a free Iraq, an Iraq free of weapons of mass destruction, and a free-market Iraq. Best of all, the INC will do all this for free." Since the plan promises a huge payoff at a tiny cost, it has unsurprisingly become the darling of Congress and Clinton's critics. It could well become popular with the American public too.

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The catch is that the INC plan is so flawed and unrealistic that it would lead inexorably to a replay of the Bay of Pigs. U.S. officials would ultimately face the choice of intervening directly or watching the rebels get butchered—as happened with the INC's last attempt to spark an insurrection, in northern Iraq from 1992 to 1996.

As the Middle East Institute's Andrew Parasiliti has observed, "the INC enjoys more support along the Potomac than the Euphrates." Ninety-nine percent of the opposition's combat power comes from two Kurdish militias operating in the north, Massud Barzani's Democratic Party of Kurdistan (DPK) and Jalal Talabani's Patriotic Union of Kurdistan (PUK), and one Shiite militia operating in the south, the Supreme Assembly of the Islamic Revolution in Iraq (SAIRI). Each group has its own agenda, and all have distanced themselves from the INC. The leaders of all three groups now say they are willing to coordinate with the INC but will not follow its lead. Worse, they aver that the INC no longer does much for the opposition cause. Last September Barzani and Talabani accepted an invitation to meet with congressional leaders but canceled when they learned that Chalabi had also been invited.

Internal opposition squabbling aside, America's regional allies hate the plan. The Kuwaitis, the Saudis, the Jordanians, and the Turks adamantly oppose all rollback efforts that do not include the direct use of U.S. military power to ensure victory, fearing that half-hearted efforts will fail and leave them facing Saddam's wrath.

Another problem is that this plan is not just militarily infeasible but downright dangerous. Even if one believes that Kurdish forces could hold the north, the INC approach still would require 10,000 to 20,000 lightly armed opposition troops to control roughly 1,000 kilometers of front inside southern and western Iraq. This is an absurd force-to-space ratio. (U.S. army doctrine, by comparison, calls for a 20,000-man armored division to defend no more than 15 to 35 kilometers of front.) Assuming that the entire regular Iraqi army remains passive—which has not been the case over the last eight years—opposition troops would still face attacks from Saddam's 70,000-man Republican Guard and 25,000-man Special Republican Guard. They would have to hold vast stretches of territory without armor and at a five-to-one numerical disadvantage.

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Moreover, a strategy of defending enclaves inside Iraq cedes the initiative to Saddam once the opposition forces reach the Euphrates and the 32nd parallel, letting him choose the time and place of subsequent battles. Even U.S. air support could not protect the opposition troops because Iraqi attacks could come during bad weather or simply at night, when the U.S. ability to interdict ground troops is greatly reduced. The 1996 Iraqi attack on the opposition-held northern city of Irbil is instructive here, precisely because the Iraqis were terrified that the United States would try to defend the city from the air. They therefore built up their forces carefully, attacked at night, smashed the INC and Kurdish forces before daylight, and withdrew the next day, presenting Washington with a fait accompli. The United States simply

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does not have enough all-weather strike aircraft to keep enough warplanes in the Persian Gulf to respond instantaneously to regime attacks on opposition units inside Iraq for the months and perhaps years that it would take to topple Saddam.

Southern Iraq is also particularly ill suited to the kind of cascading insurrection the INC plan envisages. The south's open desert terrain would be ideal for Iraqi armored operations, and the area southwest of the Euphrates is extremely sparsely populated. New opposition recruits would have to come from Basra, Iraq's second-largest city, which Saddam would be certain to defend furiously. The regime currently has three divisions with 30,000 men around the city and another three divisions within a few days' march. Assuming Saddam could muster 10,000 to 15,000 loyal troops in Basra's defense and remembering that U.S. air support would be of limited help in urban operations, Basra poses an insurmountable obstacle: the tiny INC army could not survive without taking it but would almost certainly be destroyed if it tried.

The Iraqi opposition has no military organization at all.

For the enclave approach to have even a remote chance of success, one of two assumptions would have to prove correct: that the Iraqi regime and its armed forces would simply fall apart when presented with a serious challenge, or that a few inexperienced opposition light infantry brigades could defeat several Iraqi heavy divisions in open combat. Both are wrong. During the Gulf War, Iraq's armed forces were subjected to 39 days of incessant bombing, leaving them thoroughly demoralized. But during the ground war, key units like the Republican Guard still fought extraordinarily hard. These troops would fight once more against the Iraqi opposition, as they have on every occasion since Desert Storm—and in the INC plan they would not even be subjected to an opening bombardment.

The INC thinks its light infantry brigades can easily defeat heavy armored divisions like Iraq's. If this were true, the world's armies would look quite different. To be sure, highly competent light infantry forces with long years of training, such as the U.S. Marines and Israeli paratroopers, have defeated undistinguished armored formations in open terrain. But these are exceptions. Infantry units generally require

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large numbers of antitank weapons, artillery, armor, and often airpower to stand up to a tank attack. In the vast majority of battles on open terrain during and since World War II, light infantry formations have been overcome easily by even mediocre armored forces. The Iraqi opposition's military track record to date illustrates the point. At Basra and Kirkuk in 1991 and again at Irbil in 1996, Iraqi army and Republican Guard units easily crushed dug-in Kurdish, Shiite, and INC light infantry. The only opposition success, meanwhile—large Kurdish forces pushing two brigades of the Iraqi 38th Infantry Division out of Irbil in 1995—came against the worst formation in the Iraqi army when that unit was demoralized, depleted, surprised, and without much armor or artillery support.

Still, the INC bravely claims that it could emulate the success of Chad in 1986–87, which smashed Libyan armored forces by waging maneuver warfare with highly mobile light infantry. Even a cursory glance at the Chadian victory, however, shows why the Iraqi opposition could never duplicate it. First, Chad enjoyed a favorable force ratio: Libya never committed more than 13,000 troops to the fighting, whereas Chad could call on an army of 10,000 regulars and 30,000 irregulars. Second, the Chadian army was made up of battle-hardened veterans who had fought together for years and developed a high degree of unit cohesion. Third, Chad's military leadership was superb. Hissein Habré proved a first-rate general, and among his excellent field commanders was Hassan Djamous, a commander so good that Western military experts regularly compared him to Rommel. Fourth, the Chadians were naturals at maneuver warfare, and the new American and French armored cars and trucks they got in the mid-1980s let them revert to traditional tribal combat tactics based on rapid movement and swirling envelopments—perfect analogues to modern maneuver warfare. Fifth, the Libyan army in 1986 was one of the most inept on earth. While hardly first-rate, the Iraqi army is more professional, more experienced, and better trained. Chad's success was based on a combination of all five ingredients; the INC has none of them.

In fact, the INC has no military organization at all. If the past is any guide, it probably could not field a competent force even if given years to train and recruit. The finest soldiers the INC could boast would be Iraqi army defectors, collected in dribs and drabs and then thrown

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together with political dissidents, tribesmen, intellectuals, and other opponents of Saddam. While operating from Kurdistan in 1992–96, the INC itself (as opposed to its Kurdish allies) never had more than a few hundred fighters, and few of these served for more than two or three years. Moreover, the INC leadership has shown little flair for field command, identifying competent leaders, or honing their command skills. INC forces would also have to excel at maneuver warfare to compensate for Baghdad's superior firepower. The INC, however, intends to man its ranks mostly with defectors from the Iraqi military, which is incompetent at such fighting. Such defectors are unlikely to suddenly discover a capability for maneuver warfare that they heretofore utterly lacked. Worst of all, many of these turncoats would be Saddam's spies, who would help scuttle this bid to oust him just as informants have destroyed every past opposition effort to do so. Clearly, relying on the INC's battlefield prowess would be the mother of all mistakes.

THE AFGHAN APPROACH

THE THIRD rollback option—the Afghan approach—would have the United States help the opposition mount an insurgency on the model of the Afghan mujahideen, the Nicaraguan Contras, or the Vietcong. The problem is that one key to successful guerrilla war is a friendly neighboring country willing to provide the insurgents with a secure base, and none of Iraq's neighbors are viable candidates.

The Afghan approach calls for the United States to help the opposition establish a safe haven next to the theater of operations and then recruit, train, and equip a force that can conduct a guerrilla insurgency against Saddam's regime. Guerrilla warfare is the strategy of the weak, who can win only by slowly wearing down their opponents' strength while slowly building up their own. Following Mao's classic three-step approach—start on the defensive, force a stalemate, then go on the offensive—the opposition would start small and avoid conventional battles with the Iraqi army until the rebels had a good chance of winning. After many years the insurgents would topple Saddam's regime and gain control of the country.

This plan, which requires only a modest commitment of outside resources and no risk of substantial American casualties, would certainly

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Hold that inaugural: Iraqi opposition leaders Ahmed Chalabi, Massud Barzani, and Jalal Talabani

be acceptable to the United States, where it could be sold to Congress as a 1990s version of the Reagan Doctrine. Moreover, Mao and others have demonstrated that such a strategy can indeed succeed, although it usually takes more favorable conditions. (Most of Iraq lacks the combination of rough terrain and a stable population base that would enable guerrillas to hide from government forces while living off the land.)

The catch is that the Afghan plan is unacceptable to U.S. regional allies whose cooperation would be needed for it to work. Successful guerrilla insurgencies require a secure rear area where the rebels can train new recruits, shelter dependents, care for their wounded, stockpile weapons and supplies, prepare for new operations, and retreat and regroup in the face of government offensives. Pakistan played this role for the Afghan mujahideen, Honduras did so for the Nicaraguan Contras, South Africa for UNITA, China and later North Vietnam for the Vietcong, and so on. But no country on Iraq's borders will host the opposition today. None of them is prepared to live in a state of open warfare with Iraq for as long as the rebellion takes to succeed.

Most of the candidates for the job can be dealt with quickly. Saudi officials have repeatedly stated that they are not willing to go to war with Iraq indefinitely. Besides, the Saudi territory bordering Iraq is sparsely populated desert—awful terrain for mounting an insurgency.

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Kuwait, while eager to see Saddam go, is also chary about a long-term state of belligerency—and also has uninhabited desert on its Iraqi border. Jordan, which supported past measures to overthrow Saddam, has consistently balked at allowing direct military moves against Iraq from its territory, and it too has a vast unpopulated desert on its Iraqi frontier. Syria was always only a half-hearted member of the anti-Saddam coalition and has never been willing to participate in direct military operations against Iraq, even during the Gulf War—and it too has mostly uninhabited desert on its Iraqi border.

None of Iraq's neighbors will play host to a guerrilla war to topple Saddam.

That leaves only two plausible candidates, Turkey and Iran. Turkey is certainly geographically suitable; the Turkish-Iraqi border area consists of forested mountains and is well populated. Unfortunately, the Turks have removed themselves from the running because they know that any anti-Saddam insurgency based in Turkey and northern Iraq would center around the Kurds. Ankara worries that supporting such an insurrection would fuel Kurdish political aspirations in general and embolden its own Kurdish rebels. Despite repeated pleas from U.S. officials, the Turks prefer to keep Saddam in power and have even favored his efforts to reassert control over Iraqi Kurdistan.

Iran, the final possibility, is the ideal staging ground for an Iraqi insurgency. Indeed, it has sponsored both Kurdish and Shiite guerrillas over the last four decades. Iran's border with Iraq runs through abundant mountains, hills, forests, and swamps; many communities actually straddle the frontier. Yet since the United States and Iran are barely on speaking terms these days, getting them to cooperate in sponsoring an anti-Saddam insurgency would pose a formidable obstacle.

Other problems with the Afghan approach stem from the lengthy time frame it would take to work. First, a long, drawn-out guerrilla war in Iraq would eventually stick in the craw of world opinion. The United States would find itself increasingly isolated at the United Nations and elsewhere, which would affect other foreign policy issues—including maintaining the sanctions and inspection regimes that keep Saddam relatively weak and contained. Second, this plan might eventually get rid of Saddam, but it says nothing about how to manage the challenge

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he poses in the present and foreseeable future. By embracing the Afghan approach, the United States could easily find itself stuck in a couple of years with a rebellion still in its larval stage and a resuscitated Iraq increasingly free from international restrictions.

Finally, even if the Afghan approach succeeded, it might open up a Pandora's box of new troubles. Destabilizing Saddam is not the same as installing a pro-U.S. government in Baghdad. Instability in Iraq could eventually lead to a military or security-service coup, but this would not necessarily help the INC or any other pro-Western group gain power. Indeed, Iraq might even collapse into civil war. The result of an Afghan-like insurgency, in other words, could be an Afghan-like descent into chaos.

CONTAIN YOUR ENTHUSIASM

SINCE THE United States can neither engineer Saddam's fall nor accept him back into the international community, it really has only one option left—the much-maligned existing policy of containment. Still, the Clinton administration's critics are right about one thing: the current containment regime is falling apart. The erosion of U.N. sanctions and the gradual end to Iraq's isolation have allowed Saddam to rebuild his power at home. His refusal to cooperate with the arms inspectors of the U.N. Special Commission (UNSCOM) has let him maintain some of his weapons of mass destruction (WMD) programs. If Saddam's isolation diminishes, he will build up his other military forces as well. The real and pressing challenge the United States faces in Iraq is therefore not whether to abandon containment for a better alternative—there is none—but rather how to shore it up.

This could be done in two ways, each carrying a stiff price. The first approach would be to preserve the containment of Iraq in its current broad form, with the full panoply of sanctions, inspections, reprisals, and diplomatic isolation. This would require the United States to reinvigorate the anti-Saddam coalition, purchasing as necessary renewed cooperation from the international community—including such headaches as China, France, and Russia—through concessions on other foreign policy issues such as NATO expansion, Kosovo, Iran, economic aid, U.N. dues, and so forth. The United States

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would also have to regularly threaten or use force to respond to Saddam's provocations, taking whatever military steps necessary to coerce him back into compliance. The Clinton administration, in short, would have to push Iraq to the top of its foreign policy agenda and keep it there for the foreseeable future, spending substantial diplomatic capital to keep Saddam in his box.

The second approach would be to shift from broad to narrow containment. In this scenario, the United States would agree to lift the economic sanctions on Iraq, along with the "no-fly" zones and the international travel ban, in return for a new U.N. Security Council resolution prohibiting Iraq from reconstituting its WMD programs or acquiring significant new conventional weapons such as tanks, artillery, combat aircraft, and attack helicopters. To make sure these restrictions were enforced, the resolution would provide for renewed UNSCOM inspections and comprehensive monitoring of Iraqi imports, together with a clear declaration that any U.N. member state would be permitted to use all necessary means to compel compliance. The United States, in short, would end several of the more unpopular elements of the current containment regime in return for blanket authorization for future strikes against Saddam designed to halt his WMD programs or prevent a dangerous conventional military buildup.

Washington should support Saddam's opponents but avoid delusions of grandeur.

Whichever approach one favors, support for the Iraqi opposition can and should be one component of American policy—but only as long as such support is clearly understood to supplement containment, not supplant it. Giving the opposition limited military, political, and financial aid would help make it a thorn in Saddam's side while avoiding the problems of the rollback policies described above. Such an approach would be politically, diplomatically, and militarily feasible and would accomplish a range of U.S. objectives.

The key is for Washington to avoid delusions of grandeur while strengthening Saddam's opponents. The Iraq Liberation Act is misguided less because it authorizes some military aid to the opposition than because it encourages unrealistic expectations and excessively limits which groups can be supported. The first move should be to

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bolster existing opposition militias such as those of the Kurds, who have fought the Baath regime since it took power in 1968. In recent months, the PUK and the DPK have successfully concluded an uneasy peace with one another, maintaining separate spheres of influence in northern Iraq and concentrating on resisting Saddam rather than killing each other. Despite past betrayals, the Kurds remain willing to work with the United States. The White House should reciprocate by giving the Kurds a steady supply of small arms, funds, and other resources needed to regain their military strength.

The United States should also aid Shiite groups in southern Iraq. Washington has generally avoided direct ties to even the most influential Shiite groups, such as SAIRI, because of their fundamentalism and strong ties to Iran. The United States should certainly try to strengthen, arm, and fund more moderate Shiite groups whenever possible. But it should even consider supporting SAIRI—because such help might induce moderation but primarily because effective enemies of Saddam are too few to spurn.

The United States should also try to foster a more broadly based domestic opposition to Saddam. Here the INC's propaganda is correct: only an umbrella organization can unite the disparate elements of the anti-Saddam movement, especially if the United States provides aid to the Kurds and Shiites independently. Washington must convince both skeptical regional allies and Iraq's Sunni majority that it still seeks a unified Iraq rather than one split into communal-sized pieces and opposes Kurdish or Shiite bids for hegemony over the Sunnis.

If Washington's chosen umbrella organization is to remain the INC, the group must be reinvigorated so that it can increase its influence in Iraq and attract more soldiers to its banner. The United States should help by sponsoring propaganda efforts on its behalf (such as the recently created Radio Free Iraq) and by providing funds and perhaps eventually arms and military training. As important, however, should be U.S. pressure on the INC to remove ineffectual leaders, expand and diversify its membership, and court Iraq's other chief opposition groups.

Such a plan, to be sure, would be unlikely to overthrow Saddam but would help keep him off balance and boxed in even if sanctions and other current components of containment continue to erode. It would foster disgruntlement among the Iraqi elite and possibly even

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increase the chances of Saddam's being overthrown from within. (Saddam's failure to suppress the opposition in the early 1990s led to several coup attempts and undermined his power base.) Most important, it would help curb Saddam's expansionism. Having an opposition that could legitimately claim to speak for all Iraq would both offer hope to the Iraqi people and symbolically challenge the current regime, forcing Saddam to concentrate on maintaining his control over Iraq rather than risking aggression abroad.

Providing some support to the opposition would also help alleviate the horrendous suffering of Iraq's Kurds and Shiites. Washington has repeatedly encouraged the Kurds to revolt but then abandoned them to Baghdad's mercies: selling them out in 1975, standing by while Saddam slaughtered them in the nightmarish 1987–88 Anfal campaign, sitting on the sidelines after Desert Storm in 1991, and conducting only token strikes after Saddam's encroachment into northern Iraq in 1996. The Shiites also suffer. Because of their continued defiance, Saddam has drained the south's marshes and savagely repressed the Shiites. Giving some aid to opposition forces without egging them on to quixotic adventures would demonstrate a U.S. commitment to their welfare and afford them the means to increase their resistance.

Keeping the opposition in business would also give the United States greater flexibility down the road. If broad containment ends, what will follow it? Turkey could either work more closely with Iraq or stay true to Washington. Iran might become a de facto U.S. partner or collaborate with Saddam against Western hegemony. Keeping the opposition viable would leave options open for the United States should conditions somehow change—after, say, an internal revolt in Basra or another major city—and make Saddam's long-term ouster more plausible.

Some U.S. allies will resist any significant effort to work with the opposition, but this can be overcome. Turkey rightly fears that moral and material support to Iraq's Kurds would spread to Kurdish insurgents in Turkey such as the Kurdish Workers Party (PKK). To reassure Ankara, Washington should let it play a major role in the policy's implementation and press the DPK and PUK to emphasize repeatedly that their goal is greater autonomy within Iraq and not Kurdish independence. It should also remind Turkey that the DPK has in fact helped Turkey

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suppress the PKK in the past and would do so again if supported. If the Turks still balk, the administration should make concessions on other foreign policy issues to get them on board.

The Gulf emirates will also be suspicious, but they like other potential U.S. policies even less. Assurances that Washington does not favor replacing Saddam with a Kurdish or Shiite regime would be both necessary and desirable, since neither option is a feasible way to govern Iraq. The Gulf states would also be comforted by reassurances that U.S. support for the opposition was intended as part of containment, a policy they have generally favored, rather than some new high-risk venture.

This policy should also be acceptable in the United States because it would advance American interests while limiting American involvement. In contrast to the rollback fantasies, using the opposition as part of a reinvigorated containment policy would not require large sums of money or additional military forces. The greatest danger, in fact, would be muting domestic support to ensure that it did not swell into the full-throated but impractical rhetoric that has accompanied the idea to date. Supplementing containment by giving the Iraqi opposition enough help to stay in business and harass Saddam's regime will not grab many headlines. Limited containment will not necessarily get the United States what it wants. But it might help it get what it needs.

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Gray Dawn: The Global Aging Crisis

Peter G. Peterson

DAUNTING DEMOGRAPHICS

THE LIST of major global hazards in the next century has grown long and familiar. It includes the proliferation of nuclear, biological, and chemical weapons, other types of high-tech terrorism, deadly super-viruses, extreme climate change, the financial, economic, and political aftershocks of globalization, and the violent ethnic explosions waiting to be detonated in today's unsteady new democracies. Yet there is a less-understood challenge—the graying of the developed world's population—that may actually do more to reshape our collective future than any of the above.

Over the next several decades, countries in the developed world will experience an unprecedented growth in the number of their elderly and an unprecedented decline in the number of their youth. The timing and magnitude of this demographic transformation have already been determined. Next century's elderly have already been born and can be counted—and their cost to retirement benefit systems can be projected.

Unlike with global warming, there can be little debate over whether or when global aging will manifest itself. And unlike with other challenges, even the struggle to preserve and strengthen unsteady

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new democracies, the costs of global aging will be far beyond the means of even the world's wealthiest nations—unless retirement benefit systems are radically reformed. Failure to do so, to prepare early and boldly enough, will spark economic crises that will dwarf the recent meltdowns in Asia and Russia.

How we confront global aging will have vast economic consequences costing quadrillions of dollars over the next century. Indeed, it will greatly influence how we manage, and can afford to manage, the other major challenges that will face us in the future.

For this and other reasons, global aging will become not just the transcendent economic issue of the 21st century, but the transcendent political issue as well. It will dominate and daunt the public-policy agendas of developed countries and force the renegotiation of their social contracts. It will also reshape foreign policy strategies and the geopolitical order.

The United States has a massive challenge ahead of it. The broad outlines can already be seen in the emerging debate over Social Security and Medicare reform. But ominous as the fiscal stakes are in the United States, they loom even larger in Japan and Europe, where populations are aging even faster, birthrates are lower, the influx of young immigrants from developing countries is smaller, public pension benefits are more generous, and private pension systems are weaker.

Aging has become a truly global challenge, and must therefore be given high priority on the global policy agenda. A gray dawn fast approaches. It is time to take an unflinching look at the shape of things to come.

The Floridization of the developed world. Been to Florida lately? You may not have realized it, but the vast concentration of seniors there—nearly 19 percent of the population—represents humanity's future. Today's Florida is a demographic benchmark that every developed nation will soon pass. Italy will hit the mark as early as 2003, followed by Japan in 2005 and Germany in 2006. France and Britain will pass present-day Florida around 2016; the United States and Canada in 2021 and 2023.

Societies much older than any we have ever known. Global life expectancy has grown more in the last fifty years than over the previous five thousand. Until the Industrial Revolution, people aged 65 and over never amounted to more than 2 or 3 percent of the population. In today's

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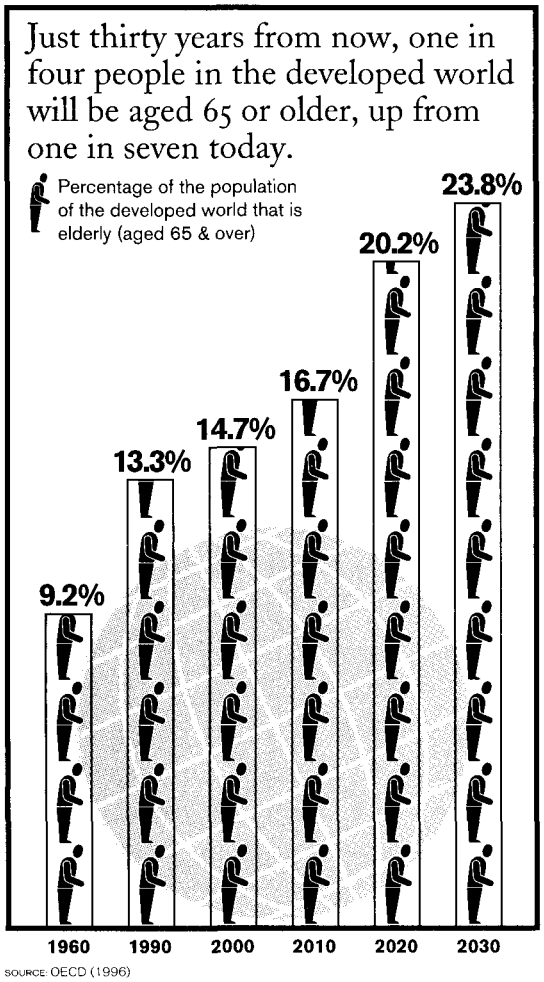

developed world, they amount to 14 percent. By the year 2030, they will reach 25 percent and be closing in on 30 in some countries.

An unprecedented economic burden on working-age people. Early in the next century, working-age populations in most developed countries will shrink. Between 2000 and 2010, Japan, for example, will suffer a 25 percent drop in the number of workers under age 30. Today the ratio of working taxpayers to nonworking pensioners in the developed world is around 3:1. By 2030, absent reform, this ratio will fall to 1.5:1, and in some countries, such as Germany and Italy, it will drop all the way down to 1:1 or even lower. While the longevity revolution represents a miraculous triumph of modern medicine and the extra years of life will surely be treasured by the elderly and their families, pension plans and other retirement benefit programs were not designed to provide these billions of extra years of payouts.

The aging of the aged: the number of "old old" will grow much faster than the number of "young old." The United Nations projects that by 2050, the number of people aged 65 to 84 worldwide will grow from 400 million to 1.3 billion (a threefold increase), while the number of people aged 85 and over will grow from 26 million to 175 million (a sixfold increase)—and the number aged 100 and over from 135,000 to 2.2 million (a sixteenfold increase). The "old old" consume far more health care than the "young old"—about two to three times as much. For nursing-home care, the ratio is roughly 20:1. Yet little of this cost is figured in the official projections of future public expenditures.

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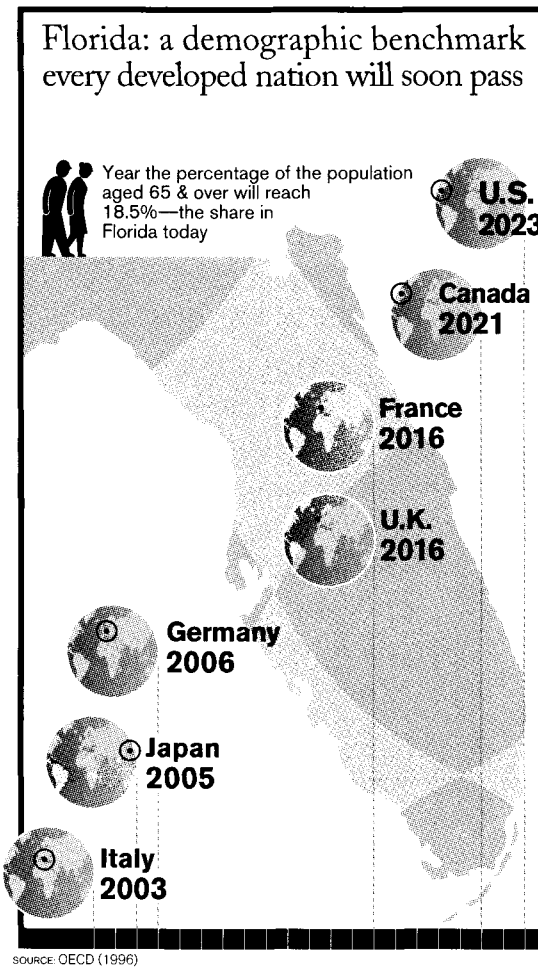
Falling birthrates will intensify the global aging trend. As life spans increase, fewer babies are being born. As recently as the late 1960s, the worldwide total fertility rate (that is, the average number of lifetime births per woman) stood at about 5.0, well within the historical range. Then came a behavioral revolution, driven by growing affluence, urbanization, feminism, rising female participation in the workforce, new birth control technologies, and legalized abortion. The result: an unprecedented and unexpected decline in the global fertility rate to about 2.7—a drop fast approaching the replacement rate of 2.1 (the rate required merely to maintain a constant population). In the developed world alone, the average fertility rate has plummeted to 1.6. Since 1995, Japan has had fewer births annually than in any year since 1899. In Germany, where the rate has fallen to 1.3, fewer babies are born each year than in Nepal, which has a population only one-quarter as large.


Florida: a demographic benchmark every developed nation will soon pass
Year the percentage of the population aged 65 & over will reach 18.5%—the share in Florida today
U.S. 2023
Canada 2021
France 2016
U.K. 2016
Germany 2006
Japan 2005
Italy 2003
SOURCE: OECD (1996)

A shrinking population in an aging developed world. Unless their fertility rates rebound, the total populations of western Europe and Japan will shrink to about one-half of their current size before the end of the next century. In 1950, 7 of the 12 most populous nations were in the developed world: the United States, Russia, Japan, Germany, France, Italy, and the United Kingdom. The United Nations projects that by 2050, only the United States will remain on the list. Nigeria, Pakistan, Ethiopia, Congo, Mexico, and the Philippines will replace the others. But since developing countries are also experiencing a drop in fertility, many are now actually aging faster than the typical

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developed country. In France, for example, it took over a century for the elderly to grow from 7 to 14 percent of the population. South Korea, Taiwan, Singapore, and China are projected to traverse that distance in only 25 years.

From worker shortage to rising immigration pressure. Perhaps the most predictable consequence of the gap in fertility and population growth rates between developed and developing countries will be the rising demand for immigrant workers in older and wealthier societies facing labor shortages. Immigrants are typically young and tend to bring with them the family practices of their native culture—including higher fertility rates. In many European countries, non-European foreigners already make up roughly 10 percent of the population. This includes 10 million to 13 million Muslims, nearly all of whom are working-age or younger. In Germany, foreigners will make up 30 percent of the total population by 2030, and over half the population of major cities like Munich and Frankfurt. Global aging and attendant labor shortages will therefore ensure that immigration remains a major issue in developed countries for decades to come. Culture wars could erupt over the balkanization of language and religion; electorates could divide along ethnic lines; and émigré leaders could sway foreign policy.

GRAYING MEANS PAYING

OFFICIAL PROJECTIONS suggest that within 30 years, developed countries will have to spend at least an extra 9 to 16 percent of GDP simply to meet their old-age benefit promises. The unfunded liabilities for pensions (that is, benefits already earned by today's workers for which nothing has been saved) are already almost $35 trillion. Add in health care, and the total jumps to at least twice as much. At minimum, the global aging issue thus represents, to paraphrase the old quiz show, a $64 trillion question hanging over the developed world's future.

To pay for promised benefits through increased taxation is unfeasible. Doing so would raise the total tax burden by an unthinkable 25 to 40 percent of every worker's taxable wages—in countries where payroll tax rates sometimes already exceed 40 percent. To finance the costs of

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these benefits by borrowing would be just as disastrous. Governments would run unprecedented deficits that would quickly consume the savings of the developed world.

And the $64 trillion estimate is probably low. It likely underestimates future growth in longevity and health care costs and ignores the negative effects on the economy of more borrowing, higher interest rates, more taxes, less savings, and lower rates of productivity and wage growth.

There are only a handful of exceptions to these nightmarish forecasts. In Australia, total public retirement costs as a share of GDP are expected to rise only slightly, and they may even decline in Britain and Ireland. This fiscal good fortune is not due to any special demographic trend, but to timely policy reforms—including tight limits on public health spending, modest pension benefit formulas, and new personally owned savings programs that allow future public benefits to shrink as a share of average wages. This approach may yet be emulated elsewhere.

Failure to respond to the aging challenge will destabilize the global economy, straining financial and political institutions around the world. Consider Japan, which today runs a large current account surplus making up well over half the capital exports of all the surplus nations combined. Then imagine a scenario in which Japan leaves its retirement programs and fiscal policies on autopilot. Thirty years from now, under this scenario, Japan will be importing massive amounts of capital to prevent its domestic economy from collapsing under the weight of benefit outlays. This will require a huge reversal in global capital flows. To get some idea of the potential volatility, note that over the next decade, Japan's annual pension deficit is projected to grow to roughly 3 times the size of its recent and massive capital exports to the United States; by 2030, the annual deficit is expected to be 15 times as large. Such reversals will cause wildly fluctuating interest and exchange rates, which may in turn short-circuit financial institutions and trigger a serious market crash.

As they age, some nations will do little to change course, while others may succeed in boosting their national savings rate, at least temporarily, through a combination of fiscal restraint and household thrift. Yet this too could result in a volatile disequilibrium in supply and demand for global capital. Such imbalance could wreak havoc with international institutions such as the European Union.

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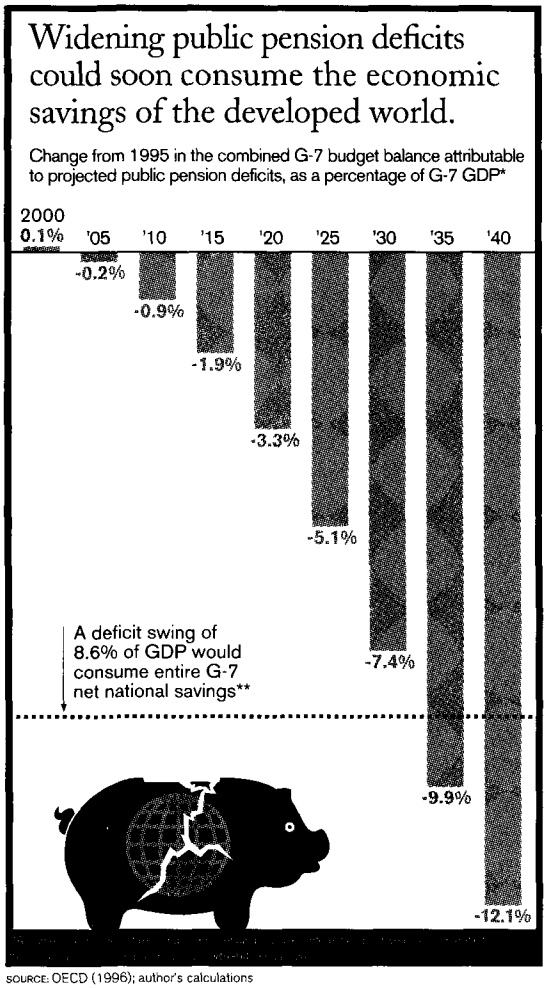

SOURCE: OECD (1996); author's calculations

In recent years, the EU has focused on monetary union, launched a single currency (the euro), promoted cross-border labor mobility, and struggled to harmonize fiscal, monetary, and trade policies. European leaders expect to have their hands full smoothing out differences between members of the Economic and Monetary Union (EMU)—from the timing of their business cycles to the diversity of their credit institutions and political cultures. For this reason, they established official public debt and deficit criteria (three percent of GDP for EMU membership) in order to discourage maverick nations from placing undue economic burdens on fellow members. But the EU has yet to face up to the biggest challenge to its future viability: the likelihood of varying national responses to the fiscal pressures of demographic aging. Indeed, the EU does not even include unfunded pension liabilities in the official EMU debt and deficit criteria—which is like measuring icebergs without looking beneath the water line.

When these liabilities come due and move from "off the books" to "on the books," the EU will, under current constraints, be required to penalize EMU members that exceed the three percent deficit cap. As a recent IMF report concludes, "over time it will become increasingly difficult for most countries to meet the deficit ceiling without comprehensive social security reform." The EU could, of course, retain members by raising the deficit limit. But once the floodgates are opened, national differences in fiscal policy may mean that EMU

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members rack up deficits at different rates. The European Central Bank, the euro, and a half-century of progress toward European unity could be lost as a result.

The total projected cost of the age wave is so staggering that we might reasonably conclude it could never be paid. After all, these numbers are projections, not predictions. They tell us what is likely to happen if current policy remains unchanged, not whether it is likely or even possible for this condition to hold. In all probability, economies would implode and governments would collapse before the projections ever materialize. But this is exactly why we must focus on these projections, for they call attention to the paramount question: Will we change course sooner, when we still have time to control our destiny and reach a more sustainable path? Or later, after unsustainable economic damage and political and social trauma cause a wrenching upheaval?

A GRAYING NEW WORLD ORDER

WHILE THE fiscal and economic consequences of global aging deserve serious discussion, other important consequences must also be examined. At the top of the list is the impact of the age wave on foreign policy and international security.

Will the developed world be able to maintain its security commitments? One need not be a Nobel laureate in economics to understand that a country's GDP growth is the product of workforce and productivity growth. If workforces shrink rapidly, GDP may drop as well, since labor productivity may not rise fast enough to compensate for the loss of workers. At least some developed countries are therefore likely to experience a long-term decline in total production of goods and services—that is, in real GDP.

Economists correctly focus on the developed world's GDP per capita, which can rise even as its workforce and total GDP shrink. But anything with a fixed cost becomes a national challenge when that cost has to be spread over a smaller population and funded out of shrinking revenues. National defense is the classic example. The West already faces grave threats from rogue states armed with biological and chemical arsenals, terrorists capable of hacking into vulnerable computer

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systems, and proliferating nuclear weapons. None of these external dangers will shrink to accommodate our declining workforce or GDP.

Leading developed countries will no doubt need to spend as much or more on defense and international investments as they do today. But the age wave will put immense pressure on governments to cut back. Falling birthrates, together with a rising demand for young workers, will also inevitably mean smaller armies. And how many parents will allow their only child to go off to war?

With fewer soldiers, total capability can be maintained only by large increases in technology and weaponry. But boosting military productivity creates a Catch-22. For how will governments get the budget resources to pay for high-tech weaponry if the senior-weighted electorate demands more money for high-tech medicine? Even if military capital is successfully substituted for military labor, the deployment options may be dangerously limited. Developed nations facing a threat may feel they have only two extreme (but relatively inexpensive) choices: a low-level response (antiterrorist strikes and cruise-missile diplomacy) or a high-level response (an all-out attack with strategic weapons).

Will Young/Old become the next North/South fault line? Historically, the richest industrial powers have been growing, capital-exporting, philanthropic giants that project their power and mores around the world. The richest industrial powers of the future may be none of these things. Instead, they may be demographically imploding, capital-importing, fiscally starving neutrals who twist and turn to avoid expensive international entanglements. A quarter-century from now, will the divide between today's "rich" and "poor" nations be better described as a divide between growth and decline, surplus and deficit, expansion and retreat, future and past? By the mid-2020s, will the contrast between North and South be better described as a contrast between Young and Old?

If today's largest low-income societies, especially China, set up fully funded retirement systems to prepare for their own future aging, they may well produce ever larger capital surpluses. As a result, today's great powers could someday depend on these surpluses to keep themselves financially afloat. But how should we expect these new suppliers of capital to use their newly acquired leverage? Will they turn the tables in international diplomacy? Will the Chinese, for example, someday demand that the United States shore up its

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Medicare system the way Americans once demanded that China reform its human rights policies as a condition for foreign assistance?

As Samuel Huntington recently put it, "the juxtaposition of a rapidly growing people of one culture and a slowly growing or stagnant people of another culture generates pressure for economic and/or political adjustments in both societies." Countries where populations are still exploding rank high on any list of potential trouble spots, whereas the countries most likely to lose population—and to see a weakening of their commitment to expensive defense and global security programs—are the staunchest friends of liberal democracy.

In many parts of the developing world, the total fertility rate remains very high (7.3 in the Gaza Strip versus 2.7 in Israel), most people are very young (49 percent under age 15 in Uganda), and the population is growing very rapidly (doubling every 26 years in Iran). These areas also tend to be the poorest, most rapidly urbanizing, most institutionally unstable—and most likely to fall under the sway of rogue leadership. They are the same societies that spawned most of the military strongmen and terrorists who have bedeviled the United States and Europe in recent decades. The Pentagon's long-term planners predict that outbreaks of regional anarchy will occur more frequently early in the next century. To pinpoint when and where, they track what they call "youth bulges" in the world's poorest urban centers.

Is demography destiny, after all? Is the rapidly aging developed world fated to decline? Must it cede leadership to younger and faster-growing societies? For the answer to be no, the developed world must redefine that role around a new mission. And what better way to do so than to show the younger, yet more tradition-bound, societies—which will soon age in their turn—how a world dominated by the old can still accommodate the young.

WHOSE WATCH IS IT, ANYWAY?

FROM PRIVATE discussions with leaders of major economies, I can attest that they are well briefed on the stunning demographic trends that lie ahead. But so far they have responded with paralysis rather than action. Hardly any country is doing what it should to prepare. Margaret Thatcher confesses that she repeatedly tried to raise the

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aging issue at G-7 summit meetings. Yet her fellow leaders stalled. "Of course aging is a profound challenge," they replied, "but it doesn't hit until early in the next century—after my watch."

Americans often fault their leaders for not acknowledging long-term problems and for not facing up to silent and slow-motion challenges. But denial is not a peculiarly American syndrome. In 1995, Silvio Berlusconi's *Forza Italia* government was buffeted by a number of political storms, all of which it weathered—except for pension reform, which shattered the coalition. That same year, the Dutch parliament was forced to repeal a recent cut in retirement benefits after a strong Pension Party, backed by the elderly, emerged from nowhere to punish the reformers. In 1996, the French government's modest proposal to trim pensions triggered strikes and even riots. A year later the Socialists overturned the ruling government at the polls.

Each country's response, or nonresponse, is colored by its political and cultural institutions. In Europe, where the welfare state is more expansive, voters can hardly imagine that the promises made by previous generations of politicians can no longer be kept. They therefore support leaders, unions, and party coalitions that make generous unfunded pensions the very cornerstone of social democracy. In the United States, the problem has less to do with welfare-state dependence than the uniquely American notion that every citizen has personally earned and is therefore entitled to whatever benefits government happens to have promised.

How governments ultimately prepare for global aging will also depend on how global aging itself reshapes politics. Already some of the largest and most strident interest groups in the United States are those that claim to speak for senior citizens, such as the American Association of Retired Persons, with its 33 million members, 1,700 paid employees, ten times that many trained volunteers, and an annual budget of $5.5 billion.

Senior power is rising in Europe, where it manifests itself less through independent senior organizations than in labor unions and (often union-affiliated) political parties that formally adopt pro-retiree platforms. Could age-based political parties be the wave of the future? In Russia, although the Communist resurgence is usually ascribed to nationalism and nostalgia, a demographic bias is at work

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as well. The Communists have repositioned themselves as the party of retirees, who are aggrieved by how runaway inflation has slashed the real value of their pensions. In the 1995 Duma elections, over half of those aged 55 and older voted Communist, versus only ten percent of those under age 40.

Commenting on how the old seem to trump the young at every turn, Lee Kuan Yew once proposed that each taxpaying worker be given two votes to balance the lobbying clout of each retired elder. No nation, not even Singapore, is likely to enact Lee's suggestion. But the question must be asked: With ever more electoral power flowing into the hands of elders, what can motivate political leaders to act on behalf of the long-term future of the young?

A handful of basic strategies, all of them difficult, might enable countries to overcome the economic and political challenges of an aging society: extending work lives and postponing retirement; enlarging the workforce through immigration and increased labor force participation; encouraging higher fertility and investing more in the education and productivity of future workers; strengthening intergenerational bonds of responsibility within families; and targeting government-paid benefits to those most in need while encouraging and even requiring workers to save for their own retirements. All of these strategies unfortunately touch raw nerves—by amending existing social contracts, by violating cultural expectations, or by offending entrenched ideologies.

TOWARD A SUMMIT ON GLOBAL AGING

ALL COUNTRIES would be well served by collective deliberation over the choices that lie ahead. For that reason I propose a Summit on Global Aging. Few venues are as well covered by the media as a global summit. Leaders have been willing to convene summits to discuss global warming. Why not global aging, which will hit us sooner and with greater certainty? By calling attention to what is at stake, a global aging summit could shift the public discussion into fast forward. That alone would be a major contribution. The summit process would also help provide an international framework for voter education, collective burden-sharing, and global leadership. Once national

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constituencies begin to grasp the magnitude of the global aging challenge, they will be more inclined to take reform seriously. Once governments get into the habit of cooperating on what in fact is a global challenge, individual leaders will not need to incur the economic and political risks of acting alone.

This summit should launch a new multilateral initiative to lend the global aging agenda a visible institutional presence: an Agency on Global Aging. Such an agency would examine how developed countries should reform their retirement systems and how developing countries should properly set them up in the first place. Perhaps the most basic question is how to weigh the interests and well-being of one generation against the next. Then there is the issue of defining the safety-net standard of social adequacy. Is there a minimum level of retirement income that should be the right of every citizen? To what extent should retirement security be left to people's own resources? When should government pick up the pieces, and how can it do so without discouraging responsible behavior? Should government compel people in advance to make better life choices, say, by enacting a mandatory savings program?

Another critical task is to integrate research about the age wave's timing, magnitude, and location. Fiscal projections should be based on assumptions that are both globally consistent and—when it comes to longevity, fertility, and health care costs—more realistic than those now in use. Still to be determined: Which countries will be hit earliest and hardest? What might happen to interest rates, exchange rates, and cross-border capital flows under various political and fiscal scenarios?

But this is not all the proposed agency could do. It could continue to build global awareness, publish a high-visibility annual report that would update these calculations, and ensure that the various regular multilateral summits (from the G-7 to ASEAN and APEC) keep global aging high on their discussion agendas. It could give coherent voice to the need for timely policy reform around the world, hold up as models whatever major steps have been taken to reduce unfunded liabilities, help design funded benefit programs, and promote generational equity. On these and many other issues, nations have much to learn from each other, just as those who favor mandatory funded pension plans are already benefiting from the examples of Chile, Britain, Australia, and Singapore.

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Global aging could trigger a crisis that engulfs the world economy. This crisis may even threaten democracy itself. By making tough choices now world leaders would demonstrate that they genuinely care about the future, that they understand this unique opportunity for young and old nations to work together, and that they comprehend the price of freedom. The gray dawn approaches. We must establish new ways of thinking and new institutions to help us prepare for a much older world.

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The Return of Depression Economics

Paul Krugman

A WHIFF OF THE 1930S

In the spring of 1931 Austria's largest bank, the Credit Anstalt, was on the verge of collapse. The Austrian government could not simply stand by and let it fail, but when it came to the bank's rescue with large sums of freshly printed domestic currency, the resulting capital flight rapidly depleted Austria's gold and foreign exchange reserves. The obvious answer would have been to abandon the gold standard and let the currency float. But this solution was unacceptable—not just because a drop in the schilling's value would magnify the burden of foreign-currency-denominated debt, but because a currency devaluation would deal a devastating blow to the confidence of a country whose memories of post–World War I hyperinflation were still fresh. Austria pleaded for help from its neighbors and the then-new Bank for International Settlements, but the offered assistance was too little, too late. In the end, the desperate government resorted to capital controls.

It is a familiar story to economic historians. It is also astonishingly modern-sounding: if the plot does not exactly fit any one of today's crisis-ridden economies around the world, it does sound very much like a pastiche of recent events in Indonesia, Malaysia, and Brazil. The main difference now is that financial rescue attempts from the international community have become routine. When a country gets in trouble today a SWAT team from the International Monetary Fund and the U.S. Treasury quickly arrives on the scene. Suppose, however,

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that the IMF could use a time machine to send its best money doctors back to that Vienna spring of 1931, but without the ability to offer a huge, no-questions-asked credit line on the spot. What would today's experts say? What could they tell the Austrians that they did not already know?[1]

Most modern economists—to the extent that they think about it at all—regard the Great Depression as a gratuitous, unnecessary tragedy. They believe that what might have been an ordinary, forgettable recession became a nightmarish slump thanks to the stupidity (or at least the ignorance) of policymakers. If only the Federal Reserve had not been preoccupied with defending the gold standard instead of the real economy; if only Herbert Hoover had followed an expansionary fiscal policy instead of trying to balance the budget; if only policy in general had not been governed by a "liquidationist" philosophy that saw short-run economic pain as a necessary purgative for previous excesses—then the catastrophe could easily have been avoided. And since we know better now, it cannot happen again.

Or can it? As little as two years ago I and most of my colleagues were quite confident that although the world would continue to suffer economic difficulties, those problems would not bear much resemblance to the crisis of the 1930s—because economists and policymakers had learned the lessons of that decade and would never again perversely tighten monetary and fiscal policy in the face of recession. True, Mexico suffered a severe slump in 1995 and Japan's economy had stagnated since 1991, but these appeared to be special cases, easily rationalized as the result of exceptionally misguided policy.

Perhaps we should have known better and realized, for example, that the dilemma Austria faced in 1931 could just as easily arise in the

[1]The Credit Anstalt crisis is described in Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, Princeton: Princeton University Press, 1996. The travails of the interwar monetary system—which bear a startling resemblance to today's issues—are also discussed in Maurice Obstfeld and Alan Taylor, "The Great Depression as a Watershed: International Capital Mobility Over the Long Term," in *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century*, ed. Michael D. Bordo, Claudia Goldin, and Eugene N. White, National Bureau of Economic Research, 1998. For discussions of Japan's economy, see Adam Posen, *Restoring Japan's Economic Growth*, Institute for International Economics, 1998; Paul Krugman, "It's Baaack: Japan's Slump and the Return of the Liquidity Trap," Brookings Papers on Economic Activity, no. 2 (1998); and David Asher and Andrew Smithers, *Japan's Key Challenges for the 21st Century*, SAIS Policy Forum Series, March 1998.

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modern world, and that now as then there are no good answers. In any case, there is no mistaking the lesson of the terrifying economic and financial events of the last two years: the economic crisis in Asia, its spread to Latin America, the deepening slump in Japan, and the brief but ominous panic that swept bond markets last autumn. The truth is that the world economy poses more dangers than we had imagined. Problems we thought we knew how to cure have once again become intractable, like temporarily suppressed bacteria that eventually evolve a resistance to antibiotics. More specifically, the problem of aggregate demand—of getting people to spend enough to employ the economy's productive capacity—is not, as we might have thought, always a problem with an easy solution. While it may often be possible for countries, especially large, stable, self-sufficient economies like the United States, to handle recessions simply by printing more money, we are finding an increasing number of cases in which countries find either that they cannot apply that same medicine or that the medicine is ineffectual. There is, in short, a definite whiff of the 1930s in the air.

The point is not that all of the current economic difficulties will necessarily get worse. There is a reasonable chance that 1999 will see some economic recovery in Asia, if not the beginning of a real climb back to economic health. Through prompt Federal Reserve action (and luck), the United States managed to avoid a financial panic last fall. Even Japan could do better in 1999 than it did in 1998. But even if all the current crises are weathered, the mere fact that they could happen—and that conventional policy responses have turned out to be either ineffectual or unavailable—is an ominous warning. The problems of the 1990s have distinct similarities with the problems of the 1930s; so do the solutions. We had better all start relearning our Depression economics.

IT'S THE SHORT RUN, STUPID

BEFORE THE 1930S most economists regarded the business cycle—the alternation of recessions and recoveries—as a relatively minor issue. Whatever the causes of such fluctuations, economists believed that slumps were self-correcting and that the economy always tended to restore full employment in the long run. Hence, the fundamental

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economic problem was to ensure that resources were used efficiently, not to ensure that they were used at all. True, as early as 1923 John Maynard Keynes famously took his colleagues to task, admonishing them not to ignore the short run:

> This *long run* is a misleading guide to current affairs. *In the long run we are all dead.* Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the sea is flat again.

But not until the Great Depression did economists realize that "short run" shortfalls of demand were crucially important. Perhaps slumps were still self-correcting in the long run, but would the economy survive to reach that long run?

Given the experience of the Depression, one might have thought that classical economics was gone for good. But the success of Keynesian economics in damping down the business cycle meant that the old focus on the full-employment long run could reemerge with a new justification. It was once again reasonable to assume that the economy would always tend quickly back to full employment—not because of any automatic mechanism but because intelligent policymakers would use monetary and fiscal policy to get it there. Like traditional European wine grapes that survived the great phylloxera epidemic by being grafted onto American root stock, classical economic theory survived the Great Depression by being grafted onto the assumption that activist monetary and fiscal policy would ensure more or less full employment. In the 1950s Paul Samuelson dubbed the resurrection of classical full-employment economic theory the "neoclassical synthesis." It remains to this day the position of those who appreciate but do not worship free markets. Here, for example, is what I wrote in *Slate* two years ago in an article entitled "Vulgar Keynesians":

> In reality the Federal Reserve Board actively manages interest rates, pushing them down when it thinks employment is too low and raising them when it thinks the economy is overheating. You may quarrel with the Fed chairman's judgment—you may think that he should keep the economy on a looser rein—but you can hardly dispute his power. Indeed, if you want a simple model for predicting the unemployment rate in the United States over the next few years, here it is: It will be what

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Greenspan wants it to be, plus or minus a random error reflecting the fact that he is not quite God.

But putting Greenspan (or his successor) into the picture restores much of the classical vision of the macroeconomy. Instead of an invisible hand pushing the economy toward full employment in some unspecified long run, we have the visible hand of the Fed pushing us toward its estimate of the noninflationary unemployment rate over the course of two or three years.

To an adherent of the neoclassical synthesis like myself, then, the really disturbing thing about the world's current problems is not so much the possibility that they will spiral into a new Great Depression, which still remains unlikely and indeed seems to have receded in the last few months. Instead, the problem is that for the first time since the 1930s, we cannot be sure that governments can or will increase demand when we need it.

THE UNHOLY TRINITY

WHAT HAS gone wrong? On the face of it, there seem to be two quite separate issues: the problems of developing countries threatened with hot money flows and those of mature economies facing a "liquidity trap."

As the Bretton Woods system of fixed exchange rates that had governed postwar world monetary affairs began to show signs of strain in the 1960s, a number of economists began to argue that there was a fundamental dilemma—or, more precisely, a "trilemma"—at the heart of international finance. Analysts such as the Canadian theorist Robert Mundell suggested that, as a fundamental matter of economic logic, countries could not get everything they want and that any exchange rate system involves sacrificing some important objectives to achieve others.

Three conflicting objectives in particular, sometimes dubbed the "irreconcilable trinity," have preoccupied would-be international financial architects. First, countries would like to retain scope for independent monetary policy—that is, they would like to be able to cut interest rates to fight recessions and raise them to counter inflation. Second, they would like to have more or less stable exchange rates because erratic fluctuations in the value of their currency create uncertainty for business and can sometimes cause severe disruptions

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to the financial system. Third, countries would like to maintain full convertibility—that is, they would like to assure businesses that money can be freely moved in or out of the country, if only to avoid the bureaucracy, paperwork, and opportunities for corruption inevitably associated with any attempt to limit capital movements.

Alas, these objectives are indeed irreconcilable. The iron law of international finance is that countries can achieve at most two of the three. The logic of this law becomes apparent when one considers what happens if a country tries to have it all. Suppose that a country, like the members of the European Monetary System, were to maintain free capital mobility and also commit itself to keeping its exchange rate fixed, buying or selling its currency on the foreign exchange markets as necessary. Could it cut interest rates to fight a recession? Not for long. If France were to try reducing its interest rates below German levels, investors, knowing that the exchange rate was fixed, would see a profit opportunity in the "carry trade." That is, they would borrow in French francs, exchange the proceeds for Deutsche marks, and invest them in Germany. To prevent this increased supply of francs and demand for marks from driving down the value of its currency, the Bank of France would have to sell marks while buying francs itself. Even if the bank started with tens of billions of marks in its account, it would quickly find those reserves exhausted. At that point a choice would have to be made. France would either have to give up on its attempt to cut interest rates and abandon the goal of independent monetary policy, or let the franc drop and give up on the goal of exchange rate stability. Alternatively, it could impose some kind of capital controls, limiting investors' ability to convert francs into foreign currency.

The trilemma of international finance forces countries to choose among three basic exchange regimes: a floating exchange regime, which allows complete freedom of international transactions and lets the government use monetary policy to fight recessions at the cost of erratic fluctuations; a fixed rate, which purchases stability at the expense of monetary independence; or capital controls, which can reconcile a relatively stable exchange rate with some monetary independence but only at the cost of other problems.

Since World War I broke up the classical gold standard, all of these regimes have been tried repeatedly. The conventional wisdom about

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which regime is most desirable has itself gone through cycles. But two years ago the majority opinion among economists—and less decisively in the international policy community—was clearly in favor of floating rates. There had once been considerable sympathy for attempts to limit exchange rate variation: for example, the "adjustable pegs" of the Bretton Woods era, under which rates were normally held within narrow bands but adjusted on occasion as circumstances warranted. But experience showed that the mere hint of a possible devaluation in the face of highly mobile capital provoked massive speculative attacks. So such compromise systems broke down, with countries either giving up and floating their rates or averting speculation by ruling out any possibility of future changes in currency values. And that meant that adopting any sort of fixed exchange rate required in effect giving up completely on monetary adjustment.

Hong Kong has concluded it simply must endure recession.

Hong Kong offers a classic example. Economic turmoil in the rest of Asia and the devaluation of many neighboring countries' currencies have left Hong Kong clearly overpriced and led to record unemployment. No law would prevent the textbook solution—a one-time devaluation of the Hong Kong dollar. But the city's economic authorities have concluded that the only way to prevent massive speculation against that currency every time there is an economic downturn is to commit themselves firmly to keeping its value in U.S. dollars constant. A recession must therefore simply be endured.

A country could avoid locking its exchange rate by reinstituting capital controls of the kind that prevailed for the first two decades of Bretton Woods, which allowed the pegs of that system to be truly adjustable, but the costs of such controls seem a high price to pay. A freely floating exchange rate, then, appears to be the lesser of three evils. Even economists who are generally pro-floating agree that tightly integrated regions that form "optimal currency areas" should adopt the ultimate form of fixed exchange rates, a common currency. (Whether the new eurozone constitutes such an area is another question.) But as a general rule, the preferred alternative of most economists is a floating exchange rate. In particular, it is the one

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most consistent with the neoclassical synthesis, because it leaves countries free to pursue both free-market and full-employment policies.

FREE FALLIN'

THE PROBLEM is that while a freely floating exchange rate seems fine for some countries, it does not appear to work for others. On one hand, the United States is well served by its general policy of benign neglect toward the foreign exchange value of the dollar. While the dollar-yen and dollar-mark rates may go through irritating gyrations, this annoyance is surely minor compared with the freedom of action that the absence of an exchange rate commitment gives to the Federal Reserve, which can cut interest rates sharply and immediately when a recession or financial crisis looms. Some smaller advanced countries also seem to thrive under floating rates. Australia's willingness to let its currency slide has so far allowed that economy to ride out the Asian crisis with remarkably little damage, even though most of its exports go to either Japan or the troubled tigers. So far, investors perceive the depreciation of the Australian dollar as a buying opportunity, and this stabilizing perception has allowed the currency to experience a moderate devaluation that has helped keep the economy humming. On the other hand, a prime lesson of the last few years seems to be that developing countries cannot play the same game. For these economies, attempts at modest currency depreciations have repeatedly failed, because the initial decline sets in motion a vicious circle where expectations of ever-greater devaluation become self-fulfilling prophecies.

This is not just true of the Asian crisis. Consider Mexico's attempt at a limited devaluation in December 1994. Many economists, myself included, believed that the peso was indeed overvalued—that Mexican costs and prices had risen too high compared with those elsewhere, and that this overvaluation was one important reason why, as Rudiger Dornbusch put it, Mexico's record was one of "stabilization, reform, and no growth." But the same might have been said of the United Kingdom in the summer of 1992. One might have expected Mexico's decision to let its currency drop to have the same benign consequences as Britain's decision to do the same two years earlier. Yet whereas investors regarded the weak pound as a buying opportunity, the Mexican

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peso went into free fall and stabilized only after it had lost half its value. And even that came only with a $50 billion rescue package and with interest rates set at 75 percent or more for a year.

At the time, this catastrophic outcome of depreciation seemed a special case. Mexico has historically been a crisis-prone country, and one could argue that the political uncertainties created by peasant uprisings, assassinations, and the still-powerful populist left made the country uniquely vulnerable to crises of confidence. But in light of subsequent events, the so-called tequila crisis must now be viewed not as an exception but as the exemplar of a new rule, summarized by some Washington policymakers with the slogan, "For developing countries, there are no small devaluations." When Ragnar Nurkse, whose 1944 book *International Currency Experience* provided much of the intellectual background for the Bretton Woods conference, wrote about market turmoil in Europe's interwar period, he might well have been writing about recent events in Asia and Latin America:

> As people began to realize the one-way character of the movement, anticipations of further depreciation became a dominant influence on the exchange market. At that point exchange depreciation lost its power to attract foreign capital. Instead, it set afoot a cumulative process of capital flight. . . . In its effects on the balance of payments the capital flow became disequilibrating instead of equilibrating. The depreciation of one currency was apt to be taken as an example of the fate that might befall others. . . . In these circumstances, one country after another had to adopt drastic measures, with or without foreign help, to stop the decline and to stabilize the exchange rate.

What are these "drastic measures"? After the devaluation of the Thai baht in July 1997, one Asian country after another was obliged to raise interest rates sharply to arrest the plunge in its currency. In turn, the combination of high interest rates and currency depreciation, which inflated the burden of foreign currency debt, provoked a financial crisis and a severe slump. In Latin America, countries have generally responded preemptively to capital flight. Brazil has defended its real with interest rates of almost 50 percent, while Mexico, after allowing the peso to slide somewhat, has also sharply raised rates in its defense.

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It could happen to you, too: bankrupt Wall Street investor, New York, 1929

Textbook economics might suggest that countries feeling the need to raise interest rates could offset the effect on demand by adopting expansionary fiscal policies, such as raising government spending or lowering taxes. In practice, however, the perceived need to regain market confidence has pushed countries threatened with speculative attack in the opposite direction. IMF programs initially required that Asian economies adopt fiscal austerity; later the fund tacitly conceded that this had been a mistake and relaxed the requirements. But the countries have nonetheless been reluctant to try to expand their economies, either by running bigger budget deficits or by printing more money. In Brazil, reducing the budget deficit has become crucial not for strict economic reasons but as a demonstration of the government's seriousness. In Mexico, the government has also felt compelled to slash spending and raise taxes to maintain credibility with the market.

It is possible that the worst effects of this wave of perverse macroeconomic policy—raising interest rates, increasing taxes, and reducing government spending in the face of recession—are already behind us. Asian countries have for now stabilized their exchange rates convincingly enough to push interest rates back down to precrisis levels,

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and there are signs that the plunge in output and employment is bottoming out—although that slump has left so many companies effectively bankrupt that it is hard to see how a true recovery can get underway. The combination of tight fiscal and monetary policies still seems guaranteed to produce a severe recession in Brazil and at least a sharp slowdown in Mexico, but perhaps the damage will not be as bad as some of us fear.

Even if this particular crisis is contained, however, we should be deeply disturbed by the fact that it could happen at all. The modern world economy should be far better placed to prevent such episodes than the economy of the interwar years. We understand the nature of recessions much better than our grandparents did. Unlike Austria in 1931, we also have in place both an institutional framework devoted to providing help and a long tradition of international financial rescue operations. Yet when the crisis struck in 1997, both individual governments and the international community found themselves obliged to behave very nearly the same way that policymakers had in the early 1930s. So much, in other words, for the neoclassical synthesis.

Fortunately, advanced countries have not found themselves in the same situation. They apparently retain the ability to fight recessions effectively and face an economic slump with lower interest rates and higher budget deficits instead of the reverse. But in some advanced countries these policies seem—in another alarming echo of the 1930s—to have become ineffective.

LESS THAN ZERO

A COUNTRY that does not need to defend its exchange rate can fight recessions easily simply by cutting interest rates as low as necessary, even all the way to zero. But what if a zero interest rate is not low enough? What if, even at a zero rate, businesses do not want to invest as much as consumers want to save? This is the dreaded "liquidity trap," in which monetary policy finds itself "pushing on a string." Attempts to expand the economy by easing credit fail because banks and consumers alike prefer holding safe, liquid cash to investing in risky, less-liquid bonds and stocks.

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On the face of it, the U.S. and British economies seemed to approach a liquidity trap during the 1930s. The average interest rate on U.S. Treasury bills during 1939 was only 0.023 percent. But in the postwar years some economists, notably Milton Friedman and Anna Schwartz, argued that monetary policy could nonetheless have been effective in the 1930s if only the Fed had tried harder. Others questioned whether a true liquidity trap is even possible in principle. In any case, the topic seemed to become one of purely historical interest. By 1990 the general view was that a liquidity trap did not happen and will not happen again.

Japan is caught in a liquidity trap, where zero is not low enough.

Then came Japan. After its "bubble economy" burst in 1991, Japanese authorities were at first reluctant to cut interest rates for fear of reinflating the bubble. Since 1996, however, short-term rates have been well under one percent and have now slipped to a quarter of one percent. Yet these extremely low rates were unable to prevent a slide into recession, let alone reverse the stagnation that has plagued the Japanese economy since 1992. Since few economists believe that shaving the last few decimal points off interest rates would make any significant difference, Japan really is caught in a classic liquidity trap, where zero is not low enough.

As already stated, until 1992 many economists believed either that such a situation could not really develop or that it was unlikely to happen in the modern world. Even if a liquidity trap were to have emerged, economists seemed to have a ready answer: pump up demand with deficit spending. As long as the government is solvent, and as long as there is no Brazil-like need to limit budget deficits to retain investor confidence, a liquidity trap should not be a cause of a persistent downturn. It merely signals that policymakers need to reach deeper into their toolbox. And yet the Japanese economy has stagnated for seven years and now is in a serious slump. Why have the Japanese not been able to come to grips with the problem?

On the face of it, they tried to stimulate the economy, but their efforts did not work. Japan's budget went from a surplus of 2.9 percent of GDP in 1991 to a deficit of 4.3 percent in 1996 (over $200 billion), and interest rates steadily fell. Yet output grew an average of only 1.5 percent annually, less than half its average in the 1980s and well below most

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estimates of potential growth. It is true that some of this increased deficit was a consequence rather than a cause of slow growth, but even the Organization for Economic Cooperation and Development's estimate of Japan's "structural" budget balance (adjusted for this effect) went from a surplus of 1.9 percent of GDP to a deficit of 4.0 percent over the five-year period.

Why might deficit spending not have worked in Japan? One answer might be that Japanese consumers took deficits now to mean higher taxes later, so that tax cuts were saved and public works spending offset by reduced private consumption. On the other hand, as the economist Adam Posen has noted, short-run swings in Japanese fiscal policy have had the normal effect. A move toward greater deficits in 1995–96 did start a noticeable, if short-lived, expansion, while Prime Minster Ryutaro Hashimoto's ill-advised tax increase in 1997 did much to provoke the current recession. So why did the long-run move toward fiscal stimulus not work? Perhaps because it did not really happen. Posen and others, myself included, have argued that standard estimates of Japanese potential growth are understated. Hence, Japan's "structural" budget deficits actually include a substantial cyclical component. In plain English, Japan has a budget deficit largely because it is in a deep recession, not because it is actually following an expansionary policy. In that case, the question really becomes one of political economy rather than economics: Why would a sophisticated nation like Japan fail to take the standard measures to revive its economy?

The logic of inaction seems to involve two factors. First, Japan's awkward demography—its aging population and the prospect of a steady decline in the number of working-age adults over the next several decades—is one of the likeliest reasons for the liquidity trap. Japanese consumers are saving for retirement, even while firms are unwilling to invest, because they expect a shrinking market. But it is also a long-run source of budgetary concern. Like other advanced countries, Japan worries about paying social insurance to retirees in the next century. As a result, the government is reluctant to run up debt. Indeed, it was concerns about such long-run solvency issues that motivated Hashimoto's tax increase in the first place.

At the same time, it is all too easy to misinterpret sustained slumps due to inadequate demand as a fundamental slowdown in the economy's

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potential growth. Once that revolution of declining expectations has taken place, appropriate short-term expansionary fiscal policy gets reinterpreted as an irresponsible structural deficit and politicians find themselves under pressure to pursue "sound" policies that abort whatever recovery may have been in progress. (Last November, just as Japan announced a new fiscal stimulus package that still seemed far from adequate, Moody's fired a warning shot against further stimulus by downgrading the government's bonds.)

Japan's experience shows not only that advanced modern economies can get into a liquidity trap, but that the easy assumption that fiscal policy can get an economy out of that trap is far too optimistic. We may castigate Japan's leaders for their failure to act decisively, but similar mistakes could easily be made in the United States or especially Europe.

Are other advanced countries at any risk of finding themselves in the same situation? The conventional answer is no, that Japan's problems are uniquely severe. But ten or even five years ago few economists would have taken seriously the possibility that Japan could be in its present predicament, and thus the emergence of liquidity traps elsewhere is no longer inconceivable.

Indeed, in the early 1990s some economists worried that the United States might be approaching liquidity-trap territory. The recession of 1990–91, brought on by a slump in consumer spending together with financial difficulties in the banking sector, was relatively mild but hard to turn around. In order to engineer a recovery, the Federal Reserve had to cut the benchmark federal funds rate to 3 percent—more than 6 percentage points below its 1989 peak. Right now, at the peak of the business cycle, the Fed's base rate in the United States is only 4.75 percent, while the corresponding rate in Europe is only 3 percent. In other words, an interest rate reduction on the same scale is literally impossible. Nor are economic shocks that would require large interest rate cuts hard to envisage. Until recently, most economic crisis scenarios in the West focused on a possible crash in sky-high stock prices. But last autumn the United States experienced a completely unexpected panic that briefly caused much of the nation's financial mechanism to seize up and had many normally optimistic observers suddenly talking about unavoidable recession.

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Like so much of what has happened lately, the 1998 financial crisis was a blast from the past. Banking panics—in which depositors lost confidence in the system, rushed for the exits, and produced a crisis that validated their panic—were a common occurrence before the 1930s. But in modern economies banks are doubly protected from such panics, both by explicit government insurance of deposits and by the understood willingness of central banks to come to the rescue with as much cash as necessary. So financial panics were supposed to be an outdated concern.

It turns out, however, that bank runs need not happen only to banks. In the United States much investment is financed via clever arrangements that allow investors to hold "liquid" assets—things that can be readily converted into cash—even though the underlying basis for those assets is quite illiquid. For example, investment in real estate, which cannot be sold at a moment's notice, is ultimately financed by the issuance of "mortgage-backed securities," which can. This works well as long as some people are always buying when others are selling, but if everyone tries to sell at once, prices plunge and a self-reinforcing panic can result. For a few weeks last autumn, it looked very much as if such a panic had set in. Prompt action by the Fed did restore calm to the markets—but Fed officials have the sense that they narrowly dodged a bullet, and that the sniper may still be out there.

The point, again, is not that a major financial crisis that will plunge Europe or the United States into a Japan-style slump is just around the corner. It is that whereas two years ago it seemed inconceivable that other advanced nations could find themselves in such a liquidity trap, that kind of crisis now seems entirely conceivable—and Japan's experience shows how hard it can be, once in such a trap, to get out again.

WHY NOW?

IF IT IS TRUE that the ghosts of the 1930s are once again stalking the earth, the obvious question is why now, after all these years? The standard answer is that some nations are paying for their failure to obey the necessary dictates of free markets. Asian economies, in particular, are being punished for the sins of crony capitalism. And every country that has gotten into trouble does turn out, once the crisis puts its policies in the spotlight, to have made major mistakes.

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It allowed banks to take unsupervised risks yet retain implicit government backing, encouraged corporations to take on excessive debt, and so on. Yet the idea that economies are being punished for their weaknesses is ultimately unconvincing on at least two grounds. For one, the scale of the punishment seems wholly disproportionate to the crime. Why should bad investment decisions lead not merely to a slowdown in growth but to a massive collapse in output and employment? Furthermore, if the fault lies with the countries, why have so many of them gotten into trouble at the same time?

A parable may be useful here. Imagine that some stretch of road has recently been the scene of an unusual number of accidents. Those who get into accidents naturally become the subject of special attention, and it becomes clear that in just about every case the victims of accidents were themselves partly to blame: they had had too much to drink, their tires were bald, and so on. The investigators therefore conclude that the problem was not the road but the drivers.

What is wrong with this conclusion? It is doubly biased. First, virtually any car or driver, if subjected to close scrutiny, will turn out to have some flaws. Are these victims clearly more flawed than average? Second, even if they are somewhat worse drivers than normal, the fact that so many of them had accidents here rather than somewhere else suggests that the fault does lie largely with the road, all the same.

To spell it out: Troubled Asian economies have turned out to have many policy and institutional weaknesses, but if America or Europe should get into trouble next year or the year after, we can be sure that in retrospect analysts will find equally damning things to say about Western values and institutions. And it is very hard to make the case that Asian policies were any worse in the 1990s than they had been in previous decades, so why did so much go so wrong so recently?

The answer is that the world became vulnerable to its current travails not because economic policies had not been reformed, but because they had. Around the world countries responded to the very real flaws in post-Depression policy regimes by moving back toward a regime with many of the virtues of pre-Depression free-market capitalism. However, in bringing back the virtues of old-fashioned capitalism, we also brought back some of its vices, most notably a vulnerability both to instability and sustained economic slumps.

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Consider four kinds of policy reforms in particular. First is the liberalization of international transactions. In the 1930s and 1940s, experiences like Austria's led to the near-universal adoption of controls on international capital movements, in many cases as part of a general system of exchange control. The original Bretton Woods system was, in fact, crucially dependent on such controls as a way to prevent the "rigidification" of exchange rates by the threat of speculative attack. But over time exchange controls came to be seen not simply as a nuisance but as a source of major abuses, distortions in incentives, and corruption. So first advanced countries, then many developing countries, moved toward full currency convertibility and free capital movement. But in so doing they left themselves vulnerable once again to destabilizing speculative attacks.

Second is the liberalization of domestic financial markets. In the shadow of the 1930s, almost all countries established tightly regulated, heavily guaranteed banking systems. These systems tended to be safe but inefficient, paying depositors low returns and doing a pretty bad job of transferring savings to their most efficient uses. Over time, a loosening of regulation made financial systems far more competitive and efficient. At the same time, however, it revived the possibility of destabilizing financial panics like the one that almost derailed the U.S. economy last autumn.

Third is the reestablishment of price stability. In the postwar era most countries experienced substantial inflation, with a worldwide explosion of prices in the 1970s and early 1980s. This inflation needed to be brought under control and ultimately was. Almost all nations now have achieved remarkably stable prices and credibly established the belief that they will continue to maintain price stability in the future. But it turned out that inflation had some unappreciated advantages. For one thing, countries that found themselves with substantial internal debt could simply inflate that debt down to manageable proportions, as Japan did with bad real estate loans in the 1970s. More important, a country with five percent inflation and eight percent interest rates has much more room to cut rates to fight a recession than a country with stable prices and three percent interest. In other words, advanced countries would be far less vulnerable to liquidity traps had they not been so assiduous about pursuing price

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stability in the 1980s. (The argument that it is a good idea to maintain some expectations of inflation so that real interest rates can go negative if necessary was vigorously promoted by none other than Deputy Secretary of the Treasury Lawrence Summers in his pre-administration days.)

Finally, there is the restoration of fiscal discipline. Many countries ran huge budget deficits in the 1970s and 1980s. As a result the 1990s have seen a great push toward fiscal responsibility, with European deficit spending curtailed first by the Maastricht Treaty and now by the post-EMU "stability pact," while the United States finally eliminated its budget deficit. Although pushed by its slump into deficit spending, Japan has attempted whenever possible to reverse course and move back toward balance—and in so doing helped push the economy back into recession.

In short, the reason Depression economics has now reemerged as a real concern is not that governments did not do the right thing, but that they did. Truly, no good deed goes unpunished.

THE WAY OUT

COMPARED WITH the 1930s, one of the encouraging aspects of the current situation is that many public officials seem both aware of the danger and relatively flexible. Although "liquidationist" rhetoric is fairly common in the press and Japanese officials sometimes seem to confuse a strong yen with a strong economy, on the whole the push is toward reflation. The question is whether the kinds of measures now considered acceptable—such as special lending facilities to support developing countries, tax cuts and bank reform to get Japan moving again, and ad hoc bailouts of hedge funds—are enough.

The answer is probably not. In a world of high capital mobility, truly massive emergency credit lines would need to be available to immunize developing countries against private capital flight. Will such credit really be available? In 1944 the economist Nurkse pointed out that such schemes would imply "that the monetary authorities of the United States, for instance, would have had to hold large amounts of, say, Austrian schillings merely to enable Austrian citizens to hold United States dollars." Now as then, it seems hard to believe that creditor countries will cheerfully finance capital flight. Yet that means

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that no realistic lending facility is going to be big enough to solve the policy dilemma of countries that dare not let their currencies float. Nor does it seem that bank reform plus ordinary fiscal policy will be enough to get Japan out of its slump. It would also be foolish to imagine that there will be no more financial-market scares in the United States or Europe or to assume confidently that the modest room for interest rate cuts in the West will be enough to cope with all such events.

So what is the alternative? At the moment there is a sort of odd inconsistency in the attitudes of responsible people toward such issues as capital controls and inflation. Nearly everyone is glad that not all developing countries managed to liberalize their capital accounts before the 1997 crisis hit; in particular, China, thank heavens, still has a nonconvertible capital account. But a Malaysian-type reversion to capital controls is regarded with horror. Similarly, everyone sleeps better knowing that the United States has two percent inflation and five percent interest rates, not stable prices and three percent interest rates—but proposals that Japan should actively seek a target of three or four percent inflation are still an anathema. It is a good thing, in other words, to be there, but not to go there.

Still, it is hard to avoid concluding that sooner or later we will have to turn the clock at least part of the way back: to limit capital flows for countries that are unsuitable for either currency unions or free floating; to reregulate financial markets to some extent; and to seek low but not too low inflation rather than price stability. We must heed the lessons of Depression economics, lest we be forced to relearn them the hard way.

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Global Financial Centers

Saskia Sassen

NEW YORK AND LONDON TRIUMPH

THE TRANSFORMATION of global capital markets into a new supranational order is continuing apace despite the current market crisis. Nationally based financial operations are shrinking and internationally oriented operations are taking their place. Globalization usually implies decentralization. But while the international network of financial centers is indeed expanding, a leaner system dominated by a handful of strategic cities is evolving. As financial operations disperse around the world, only a few cities will have the resources to be dominant. First among them are London and New York, with their enormous concentrations of resources and talent. These two will conduct the most critical and complex financial operations of the future. A secondary network of smaller economic capitals will be headed by Frankfurt, boosted by Europe's economic and monetary union. The ultimate status of battered Hong Kong and Tokyo remains murky as markets wait to see what will be left in the wake of the Asian crisis. Although Singapore and Sydney are strengthening their positions, it is difficult to imagine them replacing Tokyo's resources and Hong Kong's expertise.

The emerging financial system will sharply differ from earlier versions, which were strings of closed domestic markets with a few scattered global centers such as the offshore markets and Swiss international banking. Traditionally, each national center duplicated all financial functions for its own economy, and collaboration between national markets was

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crude and rare. Today, however, cooperation is on the rise. Leading financial services firms are now setting up operations across the globe while traditional national centers are becoming home to foreign firms with global operations. Leading cities like London and New York are executing complex operations for firms and governments from myriad countries, packaging capital in innovative ways while working with secondary cities through affiliates and direct exports of financial services. In contrast, other cities in the global network are playing "gateway" roles, such as monitoring capital flows or issuing bonds. One example is Argentina's $1 billion government bond in November, the largest emerging market bond since the market turmoil last August. Although the bond was issued in Argentina, its lead managers were J. P. Morgan and Germany's Deutsche Bank and most of its buyers were U.S. institutional investors.[1]

SECRETS OF SUCCESS

WHAT TURNS an ordinary city into a global financial center? Although many factors can boost a city's status, two elements stand out. The first is national consolidation, which favors cities with major institutional equity holdings. In the past, a nation's financial activity was often scattered among several major cities; today, most countries have one dominant national center of operations. Today, a city lacking a major stock exchange can participate in the global market if it has banks and investment houses holding significant amounts of equity. Second, new financial capitals have appeared in emerging markets that have taken the plunge into market liberalization—a trend that will continue despite the current financial turmoil.

The importance of national consolidation can be seen around the world. New York's concentration of investment banks and dominance of the U.S. stock market have now left its U.S. rivals far behind. Sydney and Toronto have gained on Melbourne and Montreal,

[1] Information cited herein comes from the Bank for International Settlements in Basel, the International Monetary Fund, Risk Management of Chicago, Technimetrics, *The Wall Street Journal*'s WorldScope, Morgan Stanley Capital International, *The Banker, The Financial Times*, and *The Economist*. Additional sources come from two of the author's books, *The Global City* and *Losing Control?*

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respectively. São Paulo has overtaken Rio de Janeiro, while Bombay has outstripped New Delhi and Calcutta. Paris today controls more of the financial sector than it did ten years ago, relegating once-important stock markets like Lyon to provincial status. In 1997 Frankfurt's market capitalization was five times greater than all other regional markets in Germany combined; in 1992 it was only twice as large. And Zurich commands the Swiss market, leaving Geneva and Basel behind. In all these cases, this pattern is spurred by rapid growth in the leading cities rather than decay in secondary cities, many of which are also growing.

A financial center is more than just the sum of its exchanges.

Internationally, concentration looms large as well. By the end of 1997, 25 cities controlled 83 percent of the world's equities under institutional management and accounted for roughly half of global market capitalization (around $20.9 trillion). Six or seven cities head this league; London, New York, and Tokyo combined hold a third of the world's institutionally managed equities and account for 58 percent of the global foreign exchange market. The distribution of institutional equity holdings is also important, for a financial center is more than just the sum of its exchanges. Although London and New York still lead, the list of financial leaders also includes several cities without a strong stock market presence, such as Boston, Philadelphia, San Francisco, Geneva, Edinburgh, and Stockholm.

Last, the number of cities joining the global financial club is growing sharply as countries deregulate their economies. São Paulo and Bombay emerged as players in international capital markets only after Brazil and India partially liberalized their own markets. When such cities join the financial major leagues, they become bridges to international business as foreign financial, accounting, and law firms enter their markets to handle the new cross-border operations. Although these newcomers may not budge global leaders from their market dominance, the overall volume of financial activity invariably rises.

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LOCATION, LOCATION, LOCATION

LOCATION STILL matters. Even as digitalization, decentralization, and denationalization radically change the way business is done, one still needs a central base, not just an address, to run financial operations. Both markets and firms need massive resources and highly concentrated advanced technology to function—two factors that favor a geographical center. The complex nature of information requires highly educated personnel to analyze data and make that analysis available to other market players. In turn, those participants can gauge information and understand risk better when they have immediate contact with one another. Executing deals requires strategic combinations of top talent in law, accounting, and forecasting. For these reasons, cities rather than computers will still coordinate business and finance, and the two world leaders, New York and London, will continue to tower above the rest.

True, powerful trends of decentralization are underway. People, goods, and services move with growing ease; many corporate services and even markets are dispersing operations around the globe. In the 1980s, for example, all basic wholesale foreign exchange operations were in London; today they are scattered in Tokyo, Singapore, Hong Kong, Zurich, Frankfurt, and Paris. Indeed, the entire network of financial centers has grown markedly in the past decade. But even this trend is overshadowed by a more powerful wave of consolidation. The more a firm disperses operations, the more complex and centralized its top-level management operations become. For instance, electronic information networks like Reuters 2000 and Electronic Brokerage Systems (EBS) now handle about 60 percent of London's foreign exchange market. New telecommunications technology also makes central coordination for firms and markets easier. Many markets need a base for their operations and executive decision-making, given the complications of operating a widely decentralized business. Executing such tasks requires top talent and specialized services in technology, accounting, law, and economic forecasting. Even global electronic markets such as NASDAQ and E*Trade rely on traders and banks located in a major city like New York.

Sophisticated information needs also keep location important. There are two basic types of information, the first being simple data:

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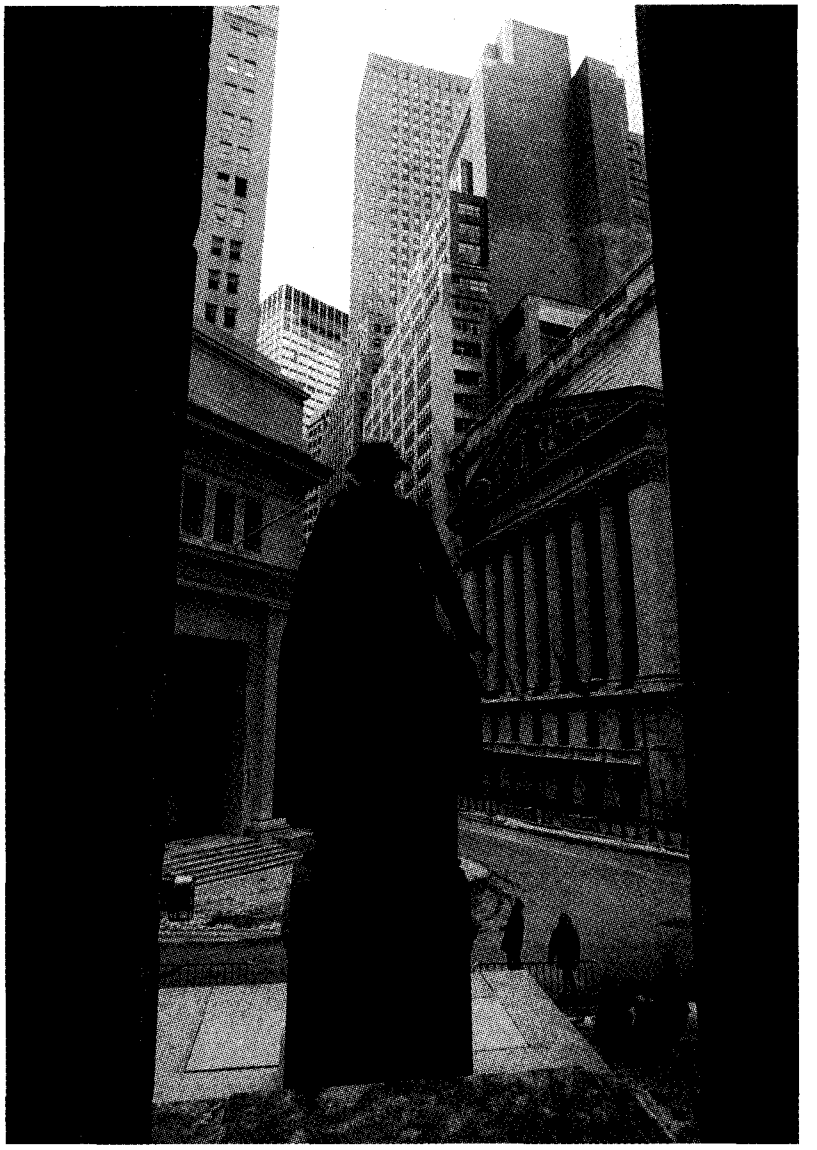

AP/WIDE WORLD PHOTOS

Still on top of the heap: Wall Street, 1996

At what level did Wall Street close? Did Argentina complete the public-sector sale of its water utility? Has Japan declared a major bank insolvent? Access to this kind of data is now global and immediate, thanks to the digital revolution. An investor in the Colorado Rockies can get the same kind of straightforward news that a New York trader can. But on another level lies a more complex type of information: analysis and interpretation, or the intelligence that results from concentrating market players and resources all in one city.

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In principle, technical infrastructure for global communication, or connectivity, can be reproduced anywhere. But the social infrastructure for global connectivity points to the importance of location. Singapore, for example, has technology on a par with Hong Kong but not as many sophisticated market players in the global information loop. When investors cannot find more complex forms of information for major international deals in their existing databases, they can get it by exchanging data and ideas among talented, informed people. Location also counts for risk management, or how banks assess the potential risk of investments and holdings. Given that many major trading losses over the last decade have involved human error or fraud, the quality of risk management depends heavily on a firm's top people rather than on mere technology, like electronic surveillance. The fall of Barings Bank at the hands of a single trader and the enormous losses from hedge fund speculation at the Union Bank of Switzerland last autumn are two classic examples. Market players now see consolidating risk management operations in one site as more effective than keeping them separate.

HOT FUSION

WHAT OTHER trends are shaping the new financial capitals today? Merger mania—driven by the growing thirst for greater resources—is driving firms and markets into cross-border alliances unthinkable just a few years ago. Market concentration among the top 10 of the 50 largest financial services firms has roughly doubled from 1992 to 1997, and new kinds of mergers keep cropping up. Swiss Bank fused with Union Bank of Switzerland in 1997 to form the world's biggest financial institution, holding combined assets of $638 billion. Just four months later, that was topped by the Citibank–Travelers Group merger, valued at $698 billion. But even that record was dashed in November, when Deutsche Bank acquired Bankers Trust, combining assets of around $840 billion. Mid-sized firms could find it difficult to survive in a global market dominated by megagroups such as Merrill Lynch, Morgan Stanley Dean Witter, and Goldman Sachs. Mergers of accounting firms, law practices, and insurance brokers are also on the rise—all enterprises that can provide global services. Analysts foresee a system dominated by a few international investment banks and

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about 25 major fund managers, along with a consolidated telecommunications industry offering them services spanning the globe.

Electronic networks too are testing the merger waters. Perhaps most spectacular was the announcement last summer that the London Stock Exchange and Frankfurt's Deutsche Börse were tying the knot to attract the top 300 shares from all over Europe and form a blue-chip European exchange. Feeling snubbed, Paris first reacted by proposing that major European exchanges create an alternative alliance. Then Madrid, Milan, Amsterdam, and Helsinki indicated interest in joining London and Frankfurt, and Paris decided its best option would be to jump aboard also rather than try to start up its own network. Elsewhere, the Chicago Board of Trade is now loosely linked to Frankfurt's Eurex, the largest European electronic futures exchange, and the Chicago Mercantile Exchange has hooked up with the Paris futures exchange, the Matif. The New York Stock Exchange is considering partnerships with exchanges in Canada and Latin America and is already talking with the Paris Bourse. NASDAQ's parent is having similar discussions with Frankfurt and London.

GLOBAL BONDING

GLOBALIZATION OFTEN implies abandoning national ties and embracing supranational alliances. In international finance, this is more than a buzzword; it is a reality. One example is the relationship between the "big three"—London, New York, and Tokyo. Market participants often paint a picture of ruthless competition, which is only partly correct. In truth, the relationship is more complex. During the wave of deregulation in the 1980s, the big three already had some cooperative division of labor that continues today with increasing specialization. Despite all the talk of bitter competition in the roaring 1980s, a truly global market was emerging that was circulating capital through the leading financial centers before selling it repackaged at home. Since this trend intensified in the 1990s, cross-border strategic alliances have been multiplying between both firms and markets. Competition coexists with strategic collaboration and hierarchy. The eurozone will further reinforce this trend by eliminating the various financial functions, notably the foreign exchange trade, that bolstered

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the existence of an "international" financial center in each member country. It will also consolidate the government bond market, establish a single currency market with one short-term base interest rate, and eventually create a single equities market. In the future, national stock markets could coexist alongside a blue-chip pan-European stock exchange. In the bond market, meanwhile, the creditworthiness of the borrower will matter, not the national currency.

London will be a winner, not a loser, in the new eurozone.

Major U.S. and European investment banks have set up specialized offices in London to handle their global business. Even French banks have set up some operations in London, inconceivable even a few years ago and still downplayed in national rhetoric. Nationality simply means less than it did even a decade ago. Global financial products are accessible in national markets and national investors can operate in global markets. Investment banks used to split up their analyst teams by country to cover a national market; now they tend to do it by industrial sector across all major countries.

Globalization has helped partly denationalize asset ownership and market regulation in many countries. Some caution is necessary, however, when assessing how far this trend can go. In many ways, it is only a partial step, albeit a necessary one for globalizing business practices. The modern financial system's sophistication stems from this limited approach: many firms and markets are "global" only when it comes to strategic institutional areas. National economies and consumer markets can stay basically unaltered. China is a good example. It adopted international accounting rules in 1993 to engage in global transactions. How much of its domestic economy did it have to change? Not much. When China launched its 100-year bond in 1996, it aimed at selling it not in Shanghai or even Hong Kong, but in New York; rather than going through the U.S. government, it went through J. P. Morgan. At the same time, China left major domestic reforms unaddressed. In a similar vein, Japanese firms operating overseas adopted international standards long before Japan's government considered requiring them to be listed on the New York Stock Exchange—an example of "strategic denationalization" that I have discussed in my book *Losing Control?*

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Acquisitions of firms and property in crisis-ridden Asia will further intensify denationalization. In the year since the crisis exploded, Lehman Brothers bought Thai residential mortgages worth half a billion dollars at a 53 percent discount, the first auction conducted by the Thai government's Financial Restructuring Authority and a mere fraction of a $21 billion national fire sale of financial-company assets. Lehman Brothers has also acquired the Thai operations of the failed Hong Kong investment bank Peregrine. The Asian financial crisis has thus partially loosened national control over key sectors of economies that had never been open in the past even while absorbing massive inflows of foreign investment.

CAPITAL CAPITALS

London is the preeminent city for global finance today, in good part due to the numerous international firms that have located key operations and resources in the City, London's financial district. It leads the world in institutional equity management, holding over $1.8 trillion in assets at the end of 1997—a 48 percent increase from $1.2 trillion in 1996, boosted by the 25 percent stock market rise in the last two years (before the all-time high of July 1998 and the subsequent sharp fall). The mighty capital of the eurozone, Frankfurt, ranks a mere ninth in institutional equity holdings. London's stock market capitalization at November 1998 stood at over $2.1 trillion, topping those of Frankfurt and Paris combined. London, together with another eurozone outsider, Zurich, accounts for over half of all market capitalization in Europe. It is arguably the world's biggest net exporter of financial services, with a surplus of $8.1 billion in 1997. It also leads in international bank lending, consulting on cross-border mergers and acquisitions, and trading and issuing international bonds. Finally, London is the leading global foreign exchange center, with a 40 percent market share, far ahead of New York.

What London lacks is Wall Street's brilliant financial engineering and Frankfurt's location as the capital of the eurozone. It does not hold Japan's enormous savings accounts or Hong Kong's strategic advantage as a link between global capital markets and China. Much of London's prominence is due instead to the leading U.S. and European investment firms that have located key operations there. U.S. firms in London are using the

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City on expectations that eurozone equity markets will double, if not triple, over the next decade—an addition of over $10 trillion by 2010. Hence, major U.S. names like Merrill Lynch, Morgan Stanley Dean Witter, Citigroup, and Mellon Bank are slashing their staffs around the world but continuing to build up in London and acquire U.K. investment firms.

London's unique denationalized platform for global operations gives it its competitive advantage. One important factor is its flexible regulation policy, which basically leaves wholesale financial traders alone and concentrates only on retail finance to protect consumers. Its legal and accounting systems are and will remain the international standard. Its regulatory framework is far more flexible for wholesale finance than the codified systems of continental Europe. While European banks arranged over half of all cross-border lending in 1997, London (and to a lesser extent New York, Hong Kong, and Singapore) handled the value-added activities and syndication. Its status as an offshore market has also reinforced its internationalization; the electronic network between the London Stock Exchange and Frankfurt's Deutsche Börse will only reinforce this development, as will the emergence of a pan-European exchange. And London's long tradition of empire has left it with bridges throughout the world. Together, these features will make London the ultimate deregulated international center for finance, business, and non-European dealings in the euro—and not, as many commentators assert, a loser in the new eurozone.

New York is the only other city poised for that kind of supremacy. New York dominates in another way by offering market innovations and new financial products. Wall Street—still the Silicon Valley of finance—has made U.S. investment firms leaders in the global market. The strength of U.S. banks and equity markets, and the size and quality of its domestic capital markets, will also continue to power New York. The United States produces only a fifth of global gross product but almost half the total value of the world's equity markets. Furthermore, New York's top investment banks often operate through branches abroad and thus feed the strength of other centers. The top five firms handling mergers and acquisitions in Europe in 1997 were from the United States. (The first European firm on the list, Lazard Frères, ranked only sixth.) Among the 50 biggest financial services firms in the world in 1997, the top ten handled 72 percent of all transactions; eight of these firms were American.

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New York is by far the biggest domestic capital market. The New York Stock Exchange is the world's largest, listing about 3,000 companies, albeit for an overwhelmingly domestic market. Even this is changing, however. The NYSE now has well over 300 foreign firms listed, thanks to the recent rash of international initial public offerings. In contrast, the Tokyo stock exchange is still losing foreign firms, even after the government eased listing requirements and costs. The NYSE will also begin trading in decimals rather than fractions over the next few years to move closer to international standards. Finally, the U.S. Securities Exchange Commission has also lowered some barriers to foreigners and approved new international accounting standards for all issuers regardless of national origin.

DISCREDITED IN ASIA

THE ASIAN crisis has cast a long shadow on the region's preeminent financial centers, Hong Kong and Tokyo. Despite Hong Kong's unique role as a bridge between the world economy and China and its abundance of specialized services, it has yet to overcome the shocks of financial turbulence. In 1997, it lost 23 percent of the value of assets under its management. Stocks and real estate have tumbled by half in the past year and may fall further, even though they recovered a quarter of their value last autumn. This collapse has been led by a recent slump in property prices, since property-linked companies dominate the stock index. To stem these losses, the government placed around $3 billion in foreign reserves in August into stock purchases—to no avail. This failure made clear that no government can thwart through intervention a sustained attack on its markets. Combined debt has reached 150 percent of gross domestic product, one of Asia's highest debt ratios. Stores all over Hong Kong are going bankrupt, with the best ones bought up by foreign firms at fire-sale prices.

Although the outlook for Tokyo is not much brighter, recent steps toward deregulation could put it back on track as the financial powerhouse in Asia that it was in the 1980s. This time around, deregulation will see more of Japan's assets and business falling under international management. This includes the $10 trillion in bonds, savings, and pension schemes held by Japanese citizens planning for retirement.

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The global capital market simply cannot bypass such enormous resources. In addition, the collapse in domestic prices and the yen has made Japanese firms and real estate attractive targets for foreign investors. Merrill Lynch has already bought 30 branches of Yamaichi Securities, while Societé Génèrale is acquiring 80 percent of Yamaichi International Capital Management. Citigroup has become the biggest shareholder of Nikko, Tokyo's third largest brokerage, and Toho Mutual Insurance recently announced a joint venture with G.E. Capital. Foreign investors are also eyeing valuable property in the Ginza, Tokyo's high-priced shopping and business district—an ironic twist on Mitsubishi's acquisition of New York's Rockefeller Center a decade ago.

Nevertheless, Tokyo still lacks the right combination of resources for producing and exporting sophisticated financial services. In this regard, the city functions as a sort of plantation economy. It produces a raw commodity—money—but lets London and New York process it. In the late 1980s, it seemed likeTokyo was ascending toward global financial status. Top investment banks and brokerages set up shop in Japan, and Tokyo looked as if it could surpass Hong Kong as a specialized, state-of-the-art financial center. The bursting of the real estate bubble ended Tokyo's rise, but its role would have been limited even without the crisis. As long as Tokyo refused to accept international accounting and financial reporting norms, its potential was always restricted. Tokyo stayed too Japanese. This is only now changing because the financial crisis is letting foreign firms enter Asian markets on an unprecedented scale, bringing Tokyo the sophisticated denationalized expertise necessary for world status. This trend was already illustrated in December when Japan's largest consumer loan company, Takefuji, listed on the Tokyo stock exchange with Warburg Dillon Reed as a lead underwriter—the first time a Japanese company ever used a foreign broker to list in Tokyo.

THE PERILS OF PROSPERITY

IN THE END, what does the transformation of the international financial system add up to? The network of cities joining the global financial market is growing and feeding the strength of the leaders, London and New York. Trading volumes are rising but have not significantly changed the overall distribution of market share. And

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top-level functions are consolidating in cities that are transcending their national attachments. Clearly, the global financial system is here to stay. But by its very design—based on connectivity, mobility, and speed—it will continue to be enormously volatile. And therein lies the rub: For emerging markets, hot capital flows may not be the most prudent and steady way to finance development. We therefore need to understand better what it means to install global financial institutions into national markets and replace domestic plans with an international corporate agenda. Countries will further facilitate capital flows by privatizing assets, abolishing rigid national controls, and standardizing operations to international norms. All of these measures will reinforce the existing network, make it more transparent, and let more new players join the game. Although markets will continue to thrive on volatility, they must draw on the unique strengths of the leading cities and their second-tier partners to reduce the pain of future turbulence. In this way, emerging markets' piece of the global financial pie can amount to more than just a few crumbs. And while London and New York will continue to lead, the wealth they manage can spread from the few to the many.

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The New Petroleum

Richard G. Lugar and R. James Woolsey

WHY CHANGE?

OIL IS a magnet for conflict. The problem is simple—everyone needs energy, but the sources of the world's transportation fuel are concentrated in relatively few countries. Well over two-thirds of the world's remaining oil reserves lie in the Middle East (including the Caspian basin), leaving the rest of the world dependent on the region's collection of predators and vulnerable autocrats. This unwelcome dependence keeps U.S. military forces tied to the Persian Gulf, forces foreign policy compromises, and sinks many developing nations into staggering debt as they struggle to pay for expensive dollar-denominated oil with lower-priced commodities and agricultural products. In addition, oil causes environmental conflict. The possibility that greenhouse gases will lead to catastrophic climate change is substantially increased by the 40 million barrels of oil burned every day by vehicles.

Ethanol has always provided an alternative to gasoline. In terms of environmental impact and fuel efficiency, its advantages over gasoline substantially outweigh its few disadvantages. But until now it has only been practical to produce ethanol from a tiny portion of plant life—the edible parts of corn or other feed grains. Corn prices have fluctuated around $100 a ton in the last few years, ranging from half to double that amount. Ethanol has thus been too expensive to represent

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anything but a small, subsidized niche of the transportation fuel market. In spite of recent reductions in the expense of ethanol processing, the final product still costs roughly a dollar a gallon, or about double today's wholesale price of gasoline.

Recent and prospective breakthroughs in genetic engineering and processing, however, are radically changing the viability of ethanol as a transportation fuel. New biocatalysts—genetically engineered enzymes, yeasts, and bacteria—are making it possible to use virtually any plant or plant product (known as cellulosic biomass) to produce ethanol. This may decisively reduce cost—to the point where petroleum products would face vigorous competition.

The best analogy to this potential cost reduction is the cracking of the petroleum molecule in the early twentieth century. This let an increasingly large share of petroleum be used in producing high-performance gasoline, thus reducing waste and lowering cost enough that gasoline could fuel this century's automotive revolution. Genetically engineered biocatalysts and new processing techniques can similarly make it possible to utilize most plant matter, rather than a tiny fraction thereof, as fuel. Cellulosic biomass is extremely plentiful. As it comes to be used to produce competitively priced ethanol, it will democratize the world's fuel market. If the hundreds of billions of dollars that now flow into a few coffers in a few nations were to flow instead to the millions of people who till the world's fields, most countries would see substantial national security, economic, and environmental benefits.

PAYING FOR ROGUES

ENERGY IS vital to a country's security and material well-being. A state unable to provide its people with adequate energy supplies or desiring added leverage over other people often resorts to force. Consider Saddam Hussein's 1990 invasion of Kuwait, driven by his desire to control more of the world's oil reserves, and the international response to this threat. The underlying goal of the U.N. force, which included 500,000 American troops, was to ensure continued and unfettered access to petroleum.

Oil permeates every aspect of our lives, so even minor price increases have devastating impacts. The most difficult challenge for planners, policymakers, and alternative-energy advocates is the transportation

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sector, which accounts for over 60 percent of U.S. oil demand. The massive infrastructure developed to support gasoline-powered cars is particularly resistant to modifications. It precludes rapid change to alternative transportation systems and makes America highly vulnerable to a break in oil supplies. During a war or embargo, moving quickly to mass transit or to fuel-cell or battery-powered automobiles would be impossible.

For most countries, excluding only those few that will be the next century's oil suppliers, the future portends growing indebtedness, driven by increasingly expensive oil imports. New demand for oil will be filled largely by the Middle East, meaning a transfer of more than $1 trillion over the next 15 years to the unstable states of the Persian Gulf alone—on top of the $90 billion they received in 1996.

Dependence on the Middle East entails the risk of a repeat of the international crises of 1973, 1979, and 1990—or worse. This growing reliance on Middle Eastern oil not only adds to that region's disproportionate leverage but provides the resources with which rogue nations support international terrorism and develop weapons of mass destruction and the ballistic missiles to carry them. Iraqi VX nerve gas and Iranian medium-range missiles show how such regimes can convert oil revenues into extensive and sophisticated armament programs.

IS OIL RUNNING OUT?

OPTIMISTS ABOUT world oil reserves, such as the Department of Energy, are getting increasingly lonely. The International Energy Agency now says that world production outside the Middle Eastern Organization of Petroleum Exporting Countries (OPEC) will peak in 1999 and world production overall will peak between 2010 and 2020. This projection is supported by influential recent articles in *Science* and *Scientific American*. Some knowledgeable academic and industry voices put the date that world production will peak even sooner—within the next five or six years.

The optimists who project large reserve quantities of over one trillion barrels tend to base their numbers on one of three things: inclusion of heavy oil and tar sands, the exploitation of which will entail huge economic and environmental costs; puffery by OPEC nations lobbying

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for higher production quotas within the cartel; or assumptions about new drilling technologies that may accelerate production but are unlikely to expand reserves.

Once production peaks, even though exhaustion of world reserves will still be many years away, prices will begin to rise sharply. This trend will be exacerbated by increased demand in the developing world. As Daniel Yergin, Dennis Eklof, and Jefferson Edwards pointed out in these pages ("Fueling Asia's Recovery," March/April 1998), even assuming a substantial recession, increased Asian needs alone will add enough demand by 2010 (9 million barrels per day) to more than equal Saudi Arabia's current daily production.

The nations of the Middle East will be ready to exploit the trend of rising demand and shrinking supply. The Gulf states control nearly two-thirds of the world's reserves; the states bordering the Caspian Sea have another several percent. Barring some unforeseen discoveries, the Middle East will control something approaching three-quarters of the world's oil in the coming century.

A WHOLE NEW WORLD

IF GENETICALLY engineered biocatalysts and advanced processing technologies can make a transition from fossil fuels to biofuels affordable, the world's security picture could be different in many ways. It would be impossible to form a cartel that would control the production, manufacturing, and marketing of ethanol fuel. U.S. diplomacy and policies in the Middle East could be guided more by a respect for democracy than by a need to protect oil supplies and accomodate oil-producing regimes. Our intrusive military presence in the region could be reduced, both ameliorating anti-American tensions and making U.S. involvement in a Middle Eastern war less likely. Other states would also reap benefits. Ukraine, rich in fertile land, would be less likely to be dominated over time by oil-rich Russia. China would feel less pressure to befriend Iran and Iraq or build a big navy to secure the oil of the South China Sea. The ability of oil-exporting countries to shape events would be increasingly limited.

The recent report by the President's Committee of Advisers on Science and Technology (PCAST) predicted that U.S. oil imports will

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approximately double between 1996 and 2030, from 8.5 million barrels per day, at a cost of $64 billion, to nearly 16 million barrels per day, at a cost of $120 billion. They estimated, however, that with concentrated efforts in fundamental energy research and investment in renewable fuel technologies, this could be reduced to 6 million barrels per day in 2030. The report concluded,

> A plausible argument can be made that the security of the United States is at least as likely to be imperiled in the first half of the next century by the consequences of inadequacies in the energy options available to the world as by inadequacies in the capabilities of U.S. weapons systems. It is striking that the Federal government spends about 20 times more R&D money on the latter problem than on the former.

FUEL FARMERS

CELLULOSIC ETHANOL would radically improve the outlook for rural areas all over the world. Farmers could produce a cash crop by simply collecting agricultural wastes or harvesting grasses or crops natural to their region. Agricultural nations with little to no petroleum reserves would begin to see economic stability and prosperity as they steadily reduced massive payments for oil imports. Even more striking would be the redistribution of resources that would occur if farmers and foresters produced much of the world's transportation fuel. We know from the positive results of micro-credit institutions and other such programs that even small increases in income can be a major boost to a subsistence-level family's prospects. If family income is a few hundred dollars a year, earning an extra $50–$100 by gathering and selling agricultural residues to a cellulosic ethanol plant could mean a much improved life. Such added income can buy a few used sewing machines to start a business or a few animals to breed and sell. It can begin to replace despondency with hope.

There are likely to be even larger effects on rural development if biomass ethanol production can lead a shift toward using plant matter for other products as well, such as biochemicals and electrical energy. The cleanliness of renewable fuel technologies makes them particularly attractive to countries that lack a sophisticated infrastructure

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or network of regulatory controls. At least some facilities that process carbohydrates should lend themselves to being simplified and sized to meet the needs of remote communities. If such towns can produce their own fuel, some of their fertilizers, and electricity, they will be far better positioned to make their way out of poverty and to move toward democracy and free enterprise. Local economic development can promote political stability and security where poverty now produces hopelessness and conflict.

A major strength of the new technologies for fermenting cellulosic biomass is the prospect that almost any type of plant, tree, or agricultural waste can be used as a source of fuel. This high degree of flexibility allows for the use of local crops that will enrich the soil, prevent erosion, and improve local environmental conditions.

Finally, as recession and devaluations overseas move the American balance-of-payments deficit from the 1998 level—$1 billion every two days—toward nearly $1 billion every day, there will be increased calls for protectionism. The best way to avoid the mistakes of the 1930s is to have a solid economic reason for increasing U.S. production of commodities now bought abroad. The nearly $70 billion spent annually for imported oil represents about 40 percent of the current U.S. trade deficit, and every $1 billion of oil imports that is replaced by domestically produced ethanol creates 10,000–20,000 American jobs.

EASY BEING GREEN

To be politically and economically acceptable, changes in fuel must be understood by the American public to be affordable and not disruptive. Most other countries require the same tough criteria—U.S. difficulties in convincing developing nations to reduce greenhouse gas emissions are directly related to the cost and the damage this would have on their development plans. But if one of the most effective ways to reduce greenhouse emissions also produced an improved balance-of-payments deficit and opportunities for rural development, economic benefits would suddenly far exceed the costs. The political acceptability of reducing emissions changes substantially when the economics change. A shift to biomass fuels stands out as an excellent way to introduce an environmentally friendly energy technology that has a chance of

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both enjoying widespread political and economic support and having a decisive impact on the risk of climate change.

Renewable fuels produced from plants are an outstanding way to substantially reduce greenhouse gases. Although burning ethanol releases carbon dioxide into the atmosphere, it is essentially the same carbon dioxide that was fixed by photosynthesis when the plants grew. Burning fossil fuels, on the other hand, releases carbon dioxide that otherwise would have stayed trapped beneath the earth.

Any type of plant, tree, or agricultural waste can be used for fuel.

If one looks at the complete life cycle of the production and use of ethanol derived from feed grains, the only addition of carbon dioxide to the atmosphere results from the use of fossil fuel products in planting, chemical fertilizing, harvesting, and processing. But this fossil fuel use can be substantial—up to seven gallons of oil may be needed to produce eight gallons of ethanol. When ethanol is produced from cellulosic biomass, however, relatively little tilling or cultivation is required, reducing the energy inputs. It takes only about one gallon of oil to produce seven of ethanol. There is a virtual consensus among scientists: when considered as part of a complete cycle of growth, fermentation, and combustion, the use of cellulosic ethanol as a fuel, once optimized, will contribute essentially no net carbon dioxide to the atmosphere.

According to a 1997 study done by five laboratories of the U.S. Department of Energy, a vehicle powered by biomass ethanol emits well under one percent of the carbon dioxide emitted by one powered by gasoline. More surprising, however, is that ethanol produced from biomass emits only about one percent of the carbon dioxide emitted by battery-powered vehicles, since the electricity for those is commonly produced by burning fossil fuels at another location. Although local air quality is improved, total carbon dioxide emissions are not curtailed; they are merely exported—for example, from Los Angeles to the Four Corners. Unless the electricity to charge the car's batteries is produced by renewable fuels or nuclear power, electric vehicles are only 20 to 40 percent better as carbon dioxide emitters than gasoline-powered cars. Biomass ethanol beats both by a factor of about 100, fundamentally changing the global-warming debate.

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FRINGE BENEFITS

CELLULOSIC ETHANOL is the only alternative fuel that requires, at most, very modest changes to vehicles and the transportation infrastructure. One need not spend money retooling Detroit, nor spend years awaiting the gradual replacement of older vehicles by those with new technology. Nor does one need to modify or construct pipelines and storage tanks to hold hydrogen as an alternate to petroleum. This compatibility with today's infrastructure saves billions of dollars and not just years, but decades. Moreover, there is nothing incompatible between using ethanol now in internal combustion engines and using it later in more efficient power systems, such as hybrids or fuel cells.

Essentially all automobiles currently on the road can use fuel containing up to ten percent ethanol. But strict fuel economy standards have encouraged the development and production of flexible fuel vehicles (FFVs) that can use up to 85 percent ethanol. FFVs are already in dealers' showrooms, containing (at no added cost to the consumer) the minor engine modifications—a computer chip in the fuel system and a fuel line made out of slightly different material—that make large-scale ethanol use possible. Even pure ethanol vehicles are quite practical. Brazil has 3.6 million on the road.

Corn ethanol will continue to serve an important role as ethanol production shifts to cellulosic biomass. Commercialization of corn ethanol has provided a base of industrial experience, talented people, and infrastructure from which a much larger cellulosic ethanol industry may be launched. For corn farmers, biomass is no threat; it will probably be a boon. Indeed, there is likely to be a continuing, perhaps even an expanding, market for corn ethanol because of the value of its byproducts, such as animal feed. In general, the transition from corn to cellulosic biomass and from a few producers to many is likely to expand opportunities for American farmers.

BIOENGINEERED BUGS

ETHANOL'S ECONOMIC viability depends on making it cheaper to produce. This can be achieved by making it out of cellulosic biomass, which includes essentially anything that grows or has grown: agricultural

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and forest residues, prairie grass, kudzu, waste wood, used paper products, even much of urban waste. Last year, about 95 percent of the ethanol produced in the United States came from corn. But agricultural residues and other wastes have low or even negative cost—some you are paid to haul away—while crops like prairie grass cost only a few tens of dollars a ton. This represents a substantial savings in the raw material used in ethanol and puts it within the range of oil, even inexpensive Persian Gulf oil.

Only recently have scientists developed the means to convert cellulosic biomass efficiently into ethanol. The edible portions of corn and other grains easily ferment into ethanol because of their chemical make-up. Most biomass, however, consists of more recalcitrant hemicellulose and cellulose, requiring both the breaking up of these two fibers as well as the fermenting of both five- and six-carbon sugars. This all happens in nature, but two parts of it—fermenting five-carbon sugars and breaking up cellulose quickly—are technically challenging. The first is now done by genetically engineered microorganisms; this tool and other new techniques are now being brought to bear on the second problem.

How far along are these developments? The current efficiency of ethanol processing is somewhat analogous to that of petroleum refining in the early 1900s: after the invention of thermal cracking made it possible to use a major share of the petroleum molecule for gasoline production but before the invention of catalytic cracking opened up an even larger share of petroleum to exploitation. In short, we have come a long way, but still have some inventing to do. The new, genetically engineered microorganisms have already taken us far toward the fermentation of ethanol from a wide range of plant material, laying the groundwork for reductions in processing costs as well.

The new microorganisms, combined with other improvements in processing, fundamentally change the equation for considering ethanol a major transportation fuel. According to a recent study by Dartmouth engineering professor Lee Lynd, utilizing only some of the nation's agricultural and forest residues, with no additional land use, could supply over 15 billion gallons of ethanol a year—more than ten times the amount now produced from corn, and enough to replace around eight percent of the nation's gasoline. (Not all residues would

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be used, of course, since some must be left for long-term fertility.) Lynd also calculated that taking a little over half of the 60 million acres of cropland historically idled by federal programs for conservation and other purposes, and using for ethanol production the mown grasses with which much of this acreage is ordinarily planted, would produce enough ethanol to fulfill around 25 percent of the country's annual gasoline needs. These calculations use current automobile mileage. Lynd notes that further mileage improvements, achieved through a shift to hybrids or fuel cells, could obviate the need for gasoline entirely, without taking land from food crops or nonagricultural uses. The coproduction of animal feed and biomass residues from alfalfa and switchgrass is especially promising. There is, in short, no basis for the argument that America does not have the land to produce enough ethanol to make a very large dent in U.S. gasoline consumption.

Biofuels must be produced in ways that enhance overall environmental quality. Sound land-use policies certainly must be followed, to protect wildlife habitat and address other environmental concerns. But professional land-use techniques should readily accomplish this. Alternative fuels are often seen as an unpalatable necessity representing a retrenched standard of living, forced upon us in an age of limits. The opposite may be true. Utilization of renewable fuels will make it possible for us to continue enjoying the freedom afforded by private cars, even as the production of petroleum begins to decline.

THE RIGHT STUFF?

EARLY THIS century, Henry Ford expected that ethanol, not gasoline, would be the fuel of choice for automobiles. His reasons are evident. The two fuels can be compared by examining three basic parameters—energy content, octane, and vapor pressure. Pure ethanol contains 69 percent of the energy of gasoline. A lower energy content translates into fewer miles to the gallon; in order to travel the same range, about a 30 percent larger fuel tank is needed (as is used in Brazil). Many scientists believe that optimizing engines for ethanol use will largely compensate for this difference, in part because ethanol is a simple combination of carbon, hydrogen, and oxygen. It is vastly less complex than gasoline, which means that

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fine-tuning an engine to squeeze every last drop of energy from ethanol is potentially easier.

Octane is the measure of a fuel's ability to oxidize hydrogen and carbon molecules within a fraction of a second. When the reaction is not simultaneous, "engine knock" and inefficient combustion result. Ethanol has an octane rating 15 percent higher than gasoline's. In the 1920s ethanol was briefly considered as a large-scale additive to gasoline to stop the knocking of the new higher compression engines. However, to the detriment of public health, ethanol lost out to highly toxic tetraethyl lead, for three reasons: in contrast to ethanol, only a small amount of lead was needed as an additive; some were concerned that corn-derived ethanol would compete for land and threaten the feed grains market; and since Prohibition was in effect, many were also worried about the security problems associated with maintaining large volumes of what is essentially 200-proof vodka. Ethanol's ability to be an effective fuel, however, was never an issue.

A third important fuel measurement is vapor pressure, or how readily a liquid evaporates. A fuel's vapor pressure is directly linked to the quantity of vehicle emissions, since over 40 percent of automobile emissions result from evaporation, not tailpipe emissions. Substituting ethanol for gasoline in any amount reduces tailpipe emissions and thus reduces urban smog. Pure ethanol, and any gasoline-ethanol mixture that is more than 22 percent ethanol, has a lower vapor pressure than gasoline and would therefore reduce the amount of evaporative emissions.

Somewhat confusingly, however, blends of ethanol and current gasoline have a slightly higher vapor pressure than pure gasoline when the mixture contains less than 22 percent ethanol, because of the unique mixing properties of the liquids. Some studies show that low-level blends of ethanol and gasoline (like gasohol, which is ten percent ethanol) can actually worsen local air pollution, especially the formation of low-level ozone. Consequently, in cities in the Northeast and California, proposals to encourage the use of ethanol blends have often fallen on deaf ears. Some environmentalists see them as camouflaged subsidies for Midwestern corn growers at the expense of the cities.

But although low-level ethanol blends present complex issues, blends with more than 22 percent ethanol—which can be used in FFVs—do not have the vaporization problem. Moreover, with different approaches to

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refining and blending gasoline, a solution to the vaporization problem may well exist even at mixtures below 22 percent. Finally, ETBE—an oxygenate made from ethanol that improves gasoline combustion—improves air quality both in tailpipe emissions and vaporization, although its use means the fuel contains five to ten percent ethanol.

Choosing to use cellulosic ethanol is not a choice to forsake more advanced automobile propulsion technologies, such as hybrids and fuel cells. Ethanol is compatible with both. Jeffrey Bentley, vice president of Arthur D. Little, Inc., a company recently honored by the U.S. government for its novel fuel-cell technology, stated that "ethanol provides higher efficiencies, fewer emissions, and better performance than other fuel sources, including gasoline. . . . Where ethanol is available, it will be the fuel of choice by consumers." As both hybrids and fuel cells continue to improve, automobiles powered by them may dramatically reduce air pollution. Ethanol's compatibility with both makes moving toward cellulosic ethanol as a transportation fuel much more desirable.

If government policies promote FFVs, moreover, a large fleet of ethanol-compatible vehicles will be available much earlier than would otherwise have been feasible. This is because FFVs can burn gasoline now but can use cellulosic ethanol as it becomes available. Introducing FFVs into the national fleet differs radically in timing from other changes in transportation. Even if an ideal hybrid or fuel-cell vehicle came on the market, the slow rate of turnover in the nation's cars would mean that it would be many years before its introduction would make a dent in overall fuel use. But moving now to substantially increase the number of FFVs being produced would create the capability to shift to cellulosic ethanol as soon as it is available at attractive prices.

In addition, insofar as U.S. security and environmental concerns are more with the consumption of problem-causing petroleum fuel than with fuel in general, substituting cellulosic ethanol for gasoline improves relevant "mileage" radically, even in internal combustion engines. For example, an average automobile gets approximately 17 miles per gallon and is driven approximately 14,000 miles per year, thus using 825 gallons of gasoline annually. Suppose that same automobile were an FFV using a mixed fuel containing 85 percent cellulosic ethanol. Because of ethanol's lower energy content, it would use about

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1,105 gallons of fuel, but only 165 would be gasoline. Such a vehicle could be said to be getting, in a sense, over 80 miles per gallon—of national-security-risk-increasing, carbon-dioxide-producing gasoline.

The one remaining barrier to widespread replacement of gasoline with ethanol is production cost. Relying on feed grains makes this cost comparatively high and volatile, since corn is subject to the caroming behavior of feed markets. In 1995, its price of $100 a ton nearly doubled, forcing a sharp curtailment in ethanol production. A partial shift to biomass should circumvent such instabilities. Over the past 15 years, the cost of producing a gallon of ethanol has been cut in half, to just over $1 a gallon wholesale. If, as predicted, the new biocatalysts, low and steady raw material costs, and improved processing let costs fall another 50 percent or so, ethanol could compete with gasoline at today's prices. If oil prices rise in the next century, gasoline could actually be at a substantial price disadvantage.

Such a reduction of ethanol cost is entirely plausible for two reasons. First, a simple comparison of energy content reveals that a dry ton of biomass crops—$40 is a reasonable current average cost—is comparable to oil at $10–13 a barrel. Agricultural wastes, in many cases, are considerably cheaper than either: many are free or have negative cost. So the overall costs of cellulosic biomass are likely to at least be in the same ballpark as those of crude oil. Second, further reductions in the cost of processing seem quite achievable. The current cost of processing ethanol is significantly higher than the equivalent price per barrel for oil. But this discrepancy reflects the maturity and sophistication of the petroleum industry, developed over the past century, as compared to the fledgling biofuels effort. Producing ethanol is not inherently more complex than refining petroleum—in fact, just the contrary. The world has simply invested far more effort in the latter.

JUMP-START

WHILE THE private sector will provide the capital and motivation to move toward ethanol, the federal government has a vital role to play. Market forces seldom reflect national security risks, environmental issues, or other social concerns. The private sector often cannot fund long-term research, despite its demonstrated potential for dramatic innovation. Hence, the federal government must increase its investment

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in renewable energy research, particularly in innovative programs such as genetic engineering of biocatalysts, development of dedicated energy crops, and improved processing. The very small sums previously invested by the Departments of Energy and Agriculture have already spawned dramatic advances. Every effort should be made to expand competitive, merit-based, and peer-reviewed science and to encourage research that cuts across scientific disciplines.

Research is essential to produce the innovations and technical improvements that will lower the production costs of ethanol and other renewable fuels and let them compete directly with gasoline. At present, the United States is not funding a vigorous program in renewable technologies. The Department of Energy spends under two percent of its budget on renewable fuels; its overall work on renewable technologies is at its lowest level in 30 years. Because private investment often follows federal commitment, industrial research and development has also reached new lows. These disturbing trends occur at a time of national economic prosperity when America has both time and resources for investing in biofuels. The United States cannot afford to wait for the next energy crisis to marshal its intellectual and industrial resources.

The United States cannot afford to wait for the next energy crisis.

Research alone will not suffice to realize cellulosic ethanol's promise. The federal government should also modify the tax code to spur private investment. The existing renewable alcohol tax credits have recently been extended by Congress through 2007—which will help the growth of the new biofuels industry and offer some protection in the transition from grain to cellulosic biomass. But the tax credit structure should facilitate the gradual adoption of cellulosic ethanol—in time, it should not need subsidies. Government incentives to produce FFVs should also be increased.

Finally, there must be a coordinated effort across the many different federal agencies that oversee government laboratories and regulatory agencies. The analogy to the semiconductor industry is instructive. In 1987, Congress authorized the creation of a government-industry partnership, the Semiconductor Manufacturing Technology Association (SEMATECH). Under the direction of the Department of

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Defense's Advanced Research Projects Agency, SEMATECH pursued fundamental research in semiconductor components and manufacturing processes. Private firms with innovative ideas were encouraged to devote research dollars to transform the idea into a commercial reality. The few domestic semiconductor manufacturers were brought together in forums where the companies could discuss technical hurdles without sacrificing competitive advantage. Today, the success of SEMATECH is evident, as the high-technology sector demonstrates. Biofuels offer a similar opportunity.

Cellulosic ethanol is a first-class transportation fuel, able to power the cars of today as well as tomorrow, use the vast infrastructure already built for gasoline, and enter quickly and easily into the transportation system. It can be shipped in standard rail cars and tank trucks and is easily mixed with gasoline. Although somewhat lower in energy content, it has a substantially higher octane rating than gasoline, allowing for more efficient combustion. It can radically reduce the emission of global warming gases, help reduce the choking smog of our cities, and improve air quality. It is far less toxic than petroleum, far less likely to explode and burn accidentally, and far simpler physically and chemically, making possible simpler refining procedures. If a second Exxon *Valdez* filled with ethanol ran aground off Alaska, it would produce a lot of evaporation and some drunk seals.

Our growing dependence on increasingly scarce Middle Eastern oil is a fool's game—there is no way for the rest of the world to win. Our losses may come suddenly through war, steadily through price increases, agonizingly through developing-nation poverty, relentlessly through climate change—or through all of the above. It would be extremely short-sighted not to take advantage of the scientific breakthroughs that have occurred and that are in the offing, accelerate them, and move smartly toward ameliorating all of these risks by beginning to substitute carbohydrates for hydrocarbons. If we do, we will make life far less dangerous and far more prosperous for future generations. If we do not, those generations will look back in angry wonder at the remarkable opportunity that we missed.

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Saving America from the Coming Civil Wars

Steven R. David

ECHOES OF YUGOSLAVIA

RECENT EVENTS have given the lie to the conventional wisdom on civil wars: that they are private matters which great powers may simply ignore. Over the past ten years, America has again and again found itself in the middle of foreign, internal conflicts, from Haiti to Somalia. And nowhere has the focus been so acute or the consequences as immediate as in the Balkans. The United States and its Western allies have worked hard—though with limited success—to end the wars that erupted when Yugoslavia collapsed. Western interests were directly implicated; concern over humanitarian abuses, the risk of war spreading to neighboring states, and the future of NATO itself justified American and European intervention. Dayton seemed to win a fragile peace for Bosnia. But the threat of war in Europe now looms as likely as ever, as elections return Bosnian hard-liners to office and the uprising simmers in Kosovo. The prospects of achieving a lasting peace in the region are slim, and these problems are likely to vex American policymakers for years to come.

The attention paid by the West to the wars in the former Yugoslavia should come as no surprise. Only recently have superpowers refrained from involvement in internal conflicts. Traditionally the case has been just the opposite. And with good reason: revolutions in France, Russia, and China sparked profound changes in the international system that remain with us today. During the Cold War, internal conflicts

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in Korea and Vietnam drew the United States into costly interventions, while domestic strife in El Salvador and Nicaragua dominated American foreign policy through the 1980s. For the Soviet Union, internal wars provided the source for both one of Moscow's greatest victories (Cuba) and one of its most costly defeats (Afghanistan).

Since the collapse of the U.S.S.R. (brought on in part by the Afghan disaster) and the end of the Cold War, new questions must be asked about civil wars and American interests. Proxy fights between Russia and America are no longer likely. The domino effect is no longer a concern. Though wars within states continue to outnumber those fought between them, many now argue that the United States should turn its back on these internal squabbles. These civil wars, they argue, are the domestic affairs of poor, weak countries, not important enough to merit American involvement. Getting enmeshed in complicated disputes and age-old hatreds will sap American resources—and for no good reason.

There is something to this view. Most civil wars do not directly threaten the United States or its allies. While recent internal conflicts have raised humanitarian concerns, none has seriously affected American security or economic interests. This, however, was largely a matter of luck. The United States should recognize a vital and sobering truth: that Russia, Mexico, and Saudi Arabia all now stand on the brink of civil war, conflicts that would have devastating consequences for the United States. These consequences are not the traditional dangers of state-to-state aggression, such as outside attack or invasion. Though largely ignored by scholars and policymakers, who remain fixated on the idea of international conflict, internal war has emerged as a principal threat to security in the post–Cold War world.

THE END OF THE WORLD (AS WE KNOW IT)

CONFLICTS FOUGHT within the borders of a single state send shock waves far beyond their frontiers. To begin with, internal wars risk destroying assets the United States needs. Were the Persian Gulf oil fields destroyed in a Saudi civil war, the American economy (and those of the rest of the developed world) would suffer severely. Internal wars can also unleash threats that stable governments formerly

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held in check. As central governments weaken and fall, weapons of mass destruction may fall into the hands of rogue leaders or anti-American factions. More directly, internal wars endanger American citizens living and traveling abroad. Liberia will not be the last place America sends helicopters to rescue its stranded citizens. Finally, internal wars, when they erupt on U.S. borders, threaten to destabilize America itself. U.S. intervention in Haiti was spurred, in large part, by fear of the flood of refugees poised to enter the United States.

All of these dangers are grave enough to warrant consideration; what makes them even more serious is the fact that their impact on America is largely unintended. Being unintended, the spill-off effects of civil wars are not easily deterred, which creates unique challenges to American interests. U.S. policymakers have traditionally tried to sway foreign leaders through a simple formula: ensure that the benefits of defying America are outweighed by the punishment that the United States will inflict if defied. That calculus, however, no longer applies when there is no single, rational government in place to deter. This raises the cost to America; if the United States (or any country) cannot deter a threat, it must turn to actual self-defense or preemption instead. Unlike deterrence, these strategies are enormously difficult to carry out and in some cases (such as preventing the destruction of the Saudi oil fields) would be impossible. Without deterrence as a policy option, Washington loses its most effective means of safeguarding its interests.

Where are these new threats likely to crop up? And which should the United States be concerned with? Two criteria must guide policymakers in answering these questions. First is the actual likelihood of civil war in any particular state. American interests would be endangered by a war in Canada, but the prospect is so improbable it can safely be ignored. Second is the impact of a civil war on the United States; would it threaten vital American security and economic concerns? Future conflict in Sierra Leone may be plausible, but it would have such a negligible impact on the United States that it does not justify much attention.

Only three countries, in fact, meet both criteria: Mexico, Saudi Arabia, and Russia. Civil conflict in Mexico would produce waves of disorder that would spill into the United States, endangering the lives

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of hundreds of thousands of Americans, destroying a valuable export market, and sending a torrent of refugees northward. A rebellion in Saudi Arabia could destroy its ability to export oil, the oil on which the industrialized world depends. And internal war in Russia could devastate Europe and trigger the use of nuclear weapons.

Of course, civil war in a cluster of other states could seriously harm American interests. These countries include Indonesia, Venezuela, the Philippines, Egypt, Turkey, Israel, and China. In none, however, are the stakes as high or the threat of war as imminent.

BREAKING MEXICO'S HABIT

MEXICO TODAY faces a future more uncertain than at any other point in its modern history. Pervasive corruption financed by drug traffickers, the end of one-party rule, armed revolt, and economic disaster have all surfaced over the past few years. In response, the Mexican army has begun to question its decades-old record of non-interference in politics. Should Mexico collapse into chaos, even for a short period of time, vital American interests will be endangered. This, in turn, raises the specter of U.S. intervention.

The growing influence of drug money is the greatest single source of Mexican instability. The narcotics industry has worked its way into the fabric of Mexican society, to the extent that it is now Mexico's largest hard currency source (estimated at $30 billion per year) and is probably the country's largest employer. As in Colombia, drug dealers threaten to take control of the state. More worrying, senior Mexican officials—including those in charge of the antidrug effort—are routinely found to be working for drug cartels. Major drug traffickers have assembled their own private armies and operate without fear of prosecution. Crime, much of it drug financed, runs rampant throughout the country, particularly in Mexico City. In 1995, then–CIA director John Deutch signaled his concern for the impact of drugs on Mexico by making that country a strategic intelligence priority for the first time. It may, however, already be too late for help from Washington. The control of Mexico by drug traffickers will be hard to reverse, especially since, given the central role the drug lords play in Mexican life, doing so might further destabilize the country.

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The face of Mexico's future?: Zapatista rebels, Chiapas, Mexico, 1998

The Mexican economy provides a second source of civil conflict. The country still has not recovered from its 1994 economic crisis, when the devaluation of the peso sparked fear of total financial collapse. Disaster was averted by the extraordinary intervention of the United States and the International Monetary Fund, which provided a $50 billion bailout. Despite this assistance, inflation climbed to 52 percent (up from 7 percent the year before), real earnings dropped by as much as 12 percent, the GDP shrank 6 percent, and over 25 percent of Mexicans fell seriously behind in debt repayment. Though conditions have improved slightly in the years since, the basic problems that caused the devaluation in the first place remain—such as reliance on foreign investment to finance growth. These problems, combined with crushing Mexican poverty (85 percent of Mexicans are either unemployed or not earning a living wage), falling oil prices, and the widening gap between the prosperous north and the impoverished south, together form the basis for future unrest.

Ironically, the advent of true democracy has further threatened Mexican stability. For 70 years, the Institutional Revolutionary Party ruled the nominally democratic country as a private fiefdom. The PRI made all key decisions and chose all important officials (including the

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president) while suppressing meaningful dissent. The monopoly ended in 1997, however, when the PRI lost its majority in the lower house of parliament to two competing political parties. The Conservative Party (PAN) now threatens the PRI in the more prosperous north while the leftist Party of the Democratic Revolution (PRD) has gained support among poor southerners, students, and intellectuals, and has won the key post of mayor of Mexico City. The fall of the PRI may enhance stability in the long term, as oppressed groups see their demands addressed for the first time. But the transition itself will be dangerous; states in the process of democratizing are far more vulnerable to civil conflict than are mature democracies or authoritarian regimes. As opposition parties declare their intent to expose the PRI's corrupt and criminal history, the order which Mexico has enjoyed for 70 years will be the first casualty of the new freedom.

As if to illustrate the potential for disorder, major armed uprisings have once again erupted. Mexico has suffered a long tradition of regional warfare, dating back to its earliest days of independence. After decades of peace, this threat reemerged in the mid-1990s, and now endangers the stability of the state. In January 1994, some 4,000 "Zapatista" rebels, fearful of losing their land, seized seven towns in the southern state of Chiapas. Though they were poorly armed, the support they received throughout Mexico and the army's inability to quell their revolt starkly demonstrated the weakness of the Mexican government. That weakness grew even more pronounced when it was revealed that the government had turned to paramilitary groups to suppress the rebels. One such group massacred 45 civilians in December 1997, sparking widespread protest and investigations of government complicity. Meanwhile, the less well known but potentially more dangerous People's Revolutionary Army (EPR) launched a rebellion in 1996 by attacking military and economic targets in six southern states. Unlike the Zapatistas, the EPR openly seeks to overthrow the current regime. While its prospects of doing so may be remote, the EPR's very existence drives a thorn into the government's side.

Amidst these struggles, the Mexican military may abandon its long tradition of noninvolvement in politics. Since the 1980s, the government has called on the military to suppress drug-related violence within the country. This use of the military for domestic purposes

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drew it directly into political disputes it had shied from in the past, and risked spreading corruption within the ranks. Meanwhile, the end of the PRI's monopoly on power may further destabilize the armed forces. For the first time in their history, the troops face an institutionally divided leadership. The military might split into rival political factions, especially if opposition parties are prevented from exercising power.

Conflict in Mexico threatens a wide range of core American interests. A civil war would endanger the 350,000 Americans who live south of the border. Direct American investments of at least $50 billion would be threatened, as would $156 billion in bilateral trade and a major source of petroleum exports. Illegal immigrants would swarm across the 2,000-mile frontier, fleeing civil conflict. And armed incursions might follow; during the Mexican Revolution of 1910, fighting spilled over the border often enough that the United States had to deploy roughly half its armed forces to contain the conflict. In a future war, the millions of Americans with family in Mexico might take sides in the fighting, sparking violence within the United States.

SAUDI SCENARIOS

AS LIKELY as is conflict in Mexico, there is even less hope for Saudi Arabia—and if the kingdom succumbs to civil war, the outcome will be catastrophic not just for the United States but for the world. A country built on contradictions, Saudi Arabia is extremely vulnerable to internal war. The same factors that have kept its regime in power—the oil economy, the military, Islam, the royal family—could now fuel an insurrection. Meanwhile, global dependence on Saudi oil will only increase in coming years, making an interruption in its flow even more dangerous.

Fabulous oil wealth has been a mixed blessing for Saudi Arabia. Oil has spared the Saudi government from the need to tax its citizens; as a result, the regime has never learned to convince its subjects to sacrifice for the good of the state (nor have the citizens learned to weather privation). The timid Saudi government must constantly buy the people's loyalty with material comforts. That might not have become a problem had oil prices not begun to drop in the 1980s. Saudi Arabia's per capita GDP plunged from $17,000 early in that decade to around $7,000 today. Unemployment among high school and university

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graduates rose to an alarming 25 percent. Struggling to cope with these problems, the government has incurred large deficits since 1983. Meanwhile, the estimated $65 billion it spent on the Gulf War only exacerbated matters. But as long as the royal family continues to benefit from government spending by receiving lavish kickbacks from foreign contractors, there seems little hope of major cuts in expenditures.

Rather than reduce its reliance on oil, in the face of increased expenses the Saudi economy has become more and more dependent on it, even as oil revenues plummet (oil export earnings are expected to shrink from $43 billion in 1997 to just over $29 billion in 1998). The government thinks that the damage done to the economy by failing to raise taxes or make major spending cuts is less dangerous than the alternative, which might alienate large portions of the population. But if the economy continues to deteriorate, the government will have to make hard choices that could rock the Saudi state.

Religion and the military undermine the Saudi royal family.

Meanwhile, the Saudi military presents another possible source of division. Always afraid of a coup, Saudi rulers have split the military into the regular armed forces (roughly 100,000 men) and the National Guard (30,000 full time, 15,000 reserves). Led by different members of the royal family, the two forces pursue distinct missions and draw on separate segments of the population: the regular military gets its recruits mostly from cities and towns while the Guard uses rural tribesmen. To prevent a coordinated coup, communications between the Guard and the military are kept to a minimum, but this has the side effect of enhancing their distinct identities. While dividing the military in this way may make it more difficult for a discontented prince to seize power at the head of a united army, it also means that a struggle in the royal family could pit the armed forces against the Guard.

Religion in Saudi Arabia also does more to undermine the current regime than to prop up its legitimacy. Since the Gulf War, when the Saudi government welcomed "infidel" troops from the West, Sunni Muslim religious leaders have launched unprecedented challenges to the royal family. Sunni notables have urged the government to sever ties with non-Muslim countries, questioned the royal family's business dealings, and called for the creation of a consultative council to assist

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the king in governing. Even if all of these demands are met (so far only the last has been addressed), the religious threat to the regime will persist. This extremist opposition is no longer just made up of the lower classes and fringe elements that violently took over Mecca's Grand Mosque in 1979. Instead, it includes well-educated members of the middle class, many of them from the Najd region—the traditional power base of the royal family. They enjoy substantial support in the cities and among the younger generation, especially those with religious educations who found no jobs waiting for them on graduation. And their ranks are swollen with the hundreds of disgruntled Saudi volunteers who fought a holy war against the Russians in Afghanistan, only to return home and find a government of questionable Islamic purity in a state where the standard of living had plummeted. Complicating matters still further are the 500,000 Saudi Shiites in the oil-rich east, whose 1980 riots shook the foundations of the Saudi regime. As the central government runs out of cash, its declining ability to buy their support may ignite a renewal of their violent protests.

As the above suggests, Saudi Arabia suffers from the fact that the various threats to domestic peace all reinforce one another. The bad economy intensifies religious extremism, which in turn exacerbates divisions in the armed forces. The catalyst for civil war can therefore come from one of several different sources. A power struggle in the royal family over succession to the throne, squabbles over shares of an ever-shrinking economic pie, or disenchantment in the military with the royal family's selfish behavior could all set off a major conflagration.

In a Saudi civil war, the oil fields will be a likely battle site, as belligerents seek the revenue and international recognition that come with control of petroleum. For either side to cripple oil production would not be difficult. The real risk lies not with the onshore oil wells themselves, which are spread over a 100-by-300 mile area, but in the country's dependence on only a few critical processing sites. Destruction of these facilities would paralyze production and take at least six months to repair. If unconventional weapons such as biological agents were used in the oil fields, production could be delayed for several more months until workers were convinced it was safe to return.

Stanching the flow of Saudi oil would devastate the United States and much of the world community. Global demand for oil (especially

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in Asia) will increase in the coming decades, while non–Persian Gulf supplies are expected to diminish. A crisis in the planet's largest oil producer, with reserves estimated at 25 percent of the world's total, would have a massive and protracted impact on the price and availability of oil worldwide. As the disruptions of 1973 and 1979 showed, the mere threat of diminished oil supply can cause panic buying, national hysteria, gas lines, and infighting. Prices for oil shot up 400 percent in 1973, 150 percent in 1979, and 50 percent (in just 15 days) in 1990. The oil shocks of the 1970s threw the United States into recession, causing spiraling inflation and a decline in savings rates that plagues the U.S. economy even now. Trillions of dollars were lost worldwide. And all this occurred at a time when the United States was less dependent on foreign petroleum than it is now. Cutting the Saudi pipeline today would cause a severe worldwide recession or depression. Short of physical attack, it is the gravest threat imaginable to American interests.

RUSSIAN DRIFT

AT NO TIME since the civil war of 1918–20 has Russia been closer to bloody conflict than it is today. The fledgling government confronts a vast array of problems without the power to take effective action. For 70 years, the Soviet Union operated a strong state apparatus, anchored by the KGB and the Communist Party. Now its disintegration has created a power vacuum that has yet to be filled. Unable to rely on popular ideology or coercion to establish control, the government must prove itself to the people and establish its authority on the basis of its performance. But the Yeltsin administration has abjectly failed to do so, and it cannot meet the most basic needs of the Russian people. Russians know they can no longer look to the state for personal security, law enforcement, education, sanitation, health care, or even electrical power. In the place of government authority, criminal groups—the Russian Mafia—increasingly hold sway. Expectations raised by the collapse of communism have been bitterly disappointed, and Moscow's inability to govern coherently raises the specter of civil unrest.

If internal war does strike Russia, economic deterioration will be a prime cause. From 1989 to the present, the GDP has fallen by 50 percent.

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In a society where, ten years ago, unemployment scarcely existed, it reached 9.5 percent in 1997 with many economists declaring the true figure to be much higher. Twenty-two percent of Russians live below the official poverty line (earning less than $70 a month). Modern Russia can neither collect taxes (it gathers only half the revenue it is due) nor significantly cut spending. Reformers tout privatization as the country's cure-all, but in a land without well-defined property rights or contract law and where subsidies remain a way of life, the prospects for transition to an American-style capitalist economy look remote at best. As the massive devaluation of the ruble and the current political crisis show, Russia's condition is even worse than most analysts feared. If conditions get worse, even the stoic Russian people will soon run out of patience.

A future conflict would quickly draw in Russia's military. In the Soviet days civilian rule kept the powerful armed forces in check. But with the Communist Party out of office, what little civilian control remains relies on an exceedingly fragile foundation—personal friendships between government leaders and military commanders. Meanwhile, the morale of Russian soldiers has fallen to a dangerous low. Drastic cuts in spending mean inadequate pay, housing, and medical care. A new emphasis on domestic missions has created an ideological split between the old and new guard in the military leadership, increasing the risk that disgruntled generals may enter the political fray and feeding the resentment of soldiers who dislike being used as a national police force. Newly enhanced ties between military units and local authorities pose another danger. Soldiers grow ever more dependent on local governments for housing, food, and wages. Draftees serve closer to home, and new laws have increased local control over the armed forces. Were a conflict to emerge between a regional power and Moscow, it is not at all clear which side the military would support.

Divining the military's allegiance is crucial, however, since the structure of the Russian Federation makes it virtually certain that regional conflicts will continue to erupt. Russia's 89 republics, *krais,* and *oblasts* grow ever more independent in a system that does little to keep them together. As the central government finds itself unable to force its will beyond Moscow (if even that far), power

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devolves to the periphery. With the economy collapsing, republics feel less and less incentive to pay taxes to Moscow when they receive so little in return. Three-quarters of them already have their own constitutions, nearly all of which make some claim to sovereignty. Strong ethnic bonds promoted by shortsighted Soviet policies may motivate non-Russians to secede from the Federation. Chechnya's successful revolt against Russian control inspired similar movements for autonomy and independence throughout the country. If these rebellions spread and Moscow responds with force, civil war is likely.

Should Russia succumb to internal war, the consequences for the United States and Europe will be severe. A major power like Russia—even though in decline—does not suffer civil war quietly or alone. An embattled Russian Federation might provoke opportunistic attacks from enemies such as China. Massive flows of refugees would pour into central and western Europe. Armed struggles in Russia could easily spill into its neighbors. Damage from the fighting, particularly attacks on nuclear plants, would poison the environment of much of Europe and Asia. Within Russia, the consequences would be even worse. Just as the sheer brutality of the last Russian civil war laid the basis for the privations of Soviet communism, a second civil war might produce another horrific regime.

Most alarming is the real possibility that the violent disintegration of Russia could lead to loss of control over its nuclear arsenal. No nuclear state has ever fallen victim to civil war, but even without a clear precedent the grim consequences can be foreseen. Russia retains some 20,000 nuclear weapons and the raw material for tens of thousands more, in scores of sites scattered throughout the country. So far, the government has managed to prevent the loss of any weapons or much materiel. If war erupts, however, Moscow's already weak grip on nuclear sites will slacken, making weapons and supplies available to a wide range of anti-American groups and states. Such dispersal of nuclear weapons represents the greatest physical threat America now faces. And it is hard to think of anything that would increase this threat more than the chaos that would follow a Russian civil war.

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ARMING AMERICA

LACK OF attention to the threat of civil wars by U.S. policymakers and academics has meant a lack of response and policy options. This does not mean, however, that Washington can or should do nothing at all. As a first measure, American policymakers should work with governments of threatened states to prevent domestic conflict from erupting. Though the inadvertent side effects of internal conflicts cannot be deterred, the outbreak of civil war itself may be discouraged. Doing so may require unambiguous and generous American support for a regime that finds itself under assault. Or it may require Washington to ease out unsustainable leaders (the Philippines' Marcos or Indonesia's Suharto) once their time has clearly passed. Either way, the difficulties of preventing internal war pale in comparison to the problems of coping with its effects.

The United States should take action now to prepare itself for civil war in key states. To respond to conflict in Mexico, Washington will need feasible evacuation plans for hundreds of thousands of Americans in that country. Contingency plans for closing the Mexican-American border should be considered. And the possibility of a Mexican civil war raises the issue of American intervention. How and where the United States would enter the fray would of course be determined by circumstances, but it is not premature to give serious thought to the prospect.

To guard against a conflict in Saudi Arabia, the United States should lead the effort to reduce Western dependence on Saudi oil. This will require a mixed strategy, including the expansion of U.S. strategic oil reserves (which could be done now, while Saudi oil is cheap and available), locating new suppliers (such as the Central Asian republics), and reviving moribund efforts to find oil alternatives. None of this will be easy, especially in an era of dollar-a-gallon gasoline, but it makes more sense than continuing to rely on an energy source so vulnerable to the ravages of civil war.

For Russia, America must reduce the chances that civil conflict there will unleash nuclear weapons against the United States. First, Washington must do more to reduce the amount of nuclear weapons and fissionable material that could be lost, stolen, or used in the chaos

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of civil war. The Nunn-Lugar program, under which the United States buys Russian nuclear material to use and store in America, is a good start, but it must be accelerated. America should not worry about making a profit on the plutonium and enriched uranium it buys, but just get the goods out of Russia as fast as possible. Second, arms control initiatives that may have been unpalatable during the Cold War should now be reconsidered, given the risk of accidental or unauthorized launchings. American policymakers should contemplate agreements to reduce the total number of Russian (and American) nuclear weapons, to deprive the Russians of the ability to quickly launch a nuclear strike (for example, by contracting to store warheads away from missiles), and should intensify efforts to develop an effective defense against missile attacks.

Fundamentally, Washington must recognize that future threats will be qualitatively different from traditional challenges. During the Cold War, an enormous amount of military, economic, and scholarly effort went into deterring a Soviet invasion of Western Europe. America did not then hesitate to protect itself. The prospect of internal war erupting in key states is now just as likely as was that of Soviet troops pouring through the Fulda Gap, and the consequences would be just as catastrophic. And yet the U.S. government gives internal war only a tiny fraction of the attention it once paid to the Soviet threat. With the Cold War over and internal wars virtually the only form of battle being fought, scholars and policymakers need to shift gears and recognize that not all threats to security are deliberate, purposeful acts of a coherent enemy that can be deterred with the right policy. Civil wars could inadvertently unleash catastrophic harms. Because these risks are so hard to prevent, they must now get the attention they so urgently deserve.

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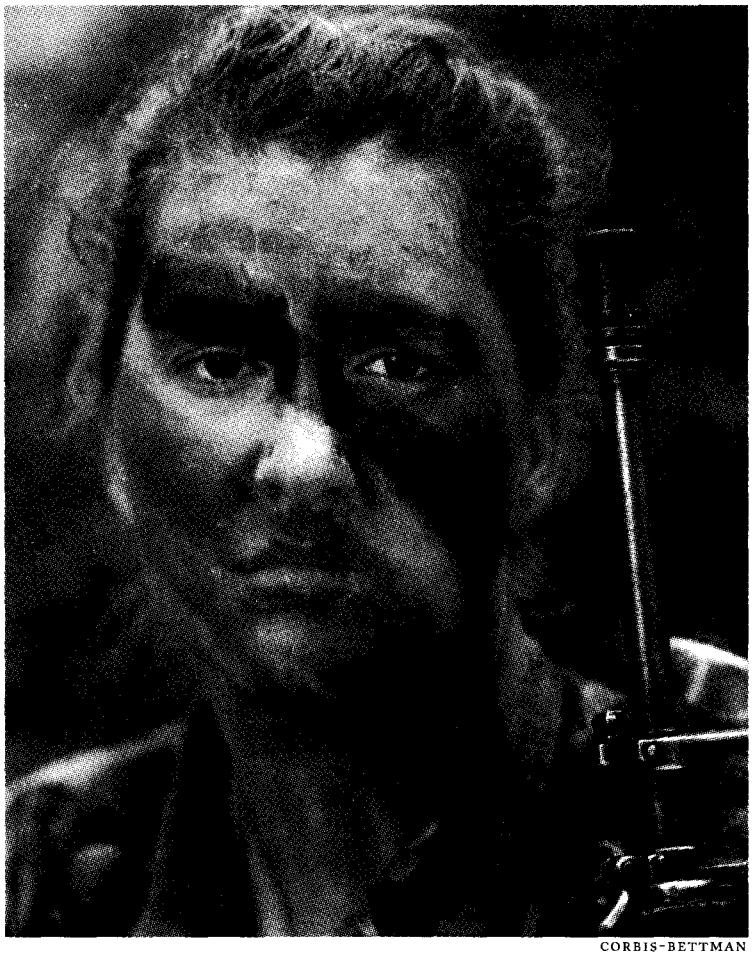
Reviews



CORBIS-BETTMAN

American soldier, Fort Dix, New Jersey, 1993

Throughout history, women have matched men in their appetite for violence.

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Fukuyama's Follies

So What if Women Ruled the World?

Men Hate War Too

BARBARA EHRENREICH

Francis Fukuyama marshals the familiar evidence suggesting that males, in our species and others, are more prone to violence than females ("Women and the Evolution of World Politics," September/October 1998). Despite the current academic bias against "essentialist" or genetic explanations of behavior, this evidence shows that males are indeed more likely to fight, murder, loot, pillage, and, of course, rape than females. The question remains, however, whether this apparently innate male predilection has much to do with the subjects that concern Fukuyama—war, international relations, and politics.

If Fukuyama had read just a bit further in the anthropology of war, even in the works of some scholars he cites approvingly, he would have discovered that there is little basis for locating the wellspring of war in aggressive male instincts—or in any instincts, for that matter. Wars are not barroom brawls writ large, but, as social theorist Robin Fox puts it, "complicated, orchestrated, highly organized" collective undertakings that cannot be explained by any individual impulse. No plausible instinct would impel a man to leave his home, cut his hair short, and drill for hours under the hot sun. As anthropologists Clifton B. Kroeber and Bernard L. Fontana have pointed out, "It is a large step from what may be biologically innate leanings toward individual aggression to ritualized, socially sanctioned, institutionalized group warfare." Or as a 1989 conference on the anthropology of war concluded, "The hypothesis of a killer instinct is . . . not so much irrelevant as wrong."

In fact, the male appetite for battle has always been far less voracious than either biologically inclined theorists of war or army commanders might like. In traditional societies, warriors often had to be taunted, intoxicated, or ritually "transformed" into animal form before battle. Throughout Western history, individual men have gone to near-suicidal lengths to avoid participating in wars—cutting off limbs or fingers or risking execution by deserting. Prior to the advent of the nationalist armies of the nineteenth century, desertion rates in European armies were so high that, according

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to historian Geoffrey Parker, "at certain times, almost an entire army would vanish into thin air." So unreliable was the rank and file of the famed eighteenth-century Prussian army that military manuals forbade camping near wooded areas. Even in the supposedly highly motivated armies of the twentieth-century democracies, few men can bring themselves to shoot directly at individual enemies—a fact, as Lieutenant Colonel Dave Grossman writes in *On Killing: The Psychological Cost of Learning to Kill in War and Society*, that has posed a persistent challenge to the Pentagon.

MALE RITES

Fortunately, we need not resort to instinctual male aggressiveness to explain the male near-monopoly on warfare. One reason is clearly biological, resting on men's advantage in upper body strength—an undeniable plus when the weapons of war are heavy swords, spears, pikes, maces, or clubs. Another explanation is cultural, or at least as purely cultural as one can be: In many, if not most, human societies, male initiation rites feature acts of violence committed by or on the initiates, and one of the most common of these rites has been participation in battle. Through "blooding his spear" a boy proved his manhood (or through ordering the bombing of some smaller nation, in the case of recent American presidents). For an activity to be a male initiatory rite, it cannot, of course, be open to women and girls. Hence the widespread taboos on female handling of weapons and, in many cases, the tools of peaceable male-dominated crafts.

But there is no reason to think that such initiatory activities derive from instinctual male proclivities. In some cultural settings, the young male's initiation to the adult world may be entirely bloodless, featuring the receipt of a diploma or admission into a guild. In others it may be violent in ways not related to war, involving circumcision, homosexual rape, or nose-bleeding induced with sharp sticks—activities few would claim are instinctually driven. In fact, the very purpose of male initiation rites is to distinguish biological maleness, which undoubtedly includes a healthy desire for self-preservation, from cultural manhood, which requires a certain amount of self-discipline and even self-sacrifice for the group (as does cultural womanhood).

WOMEN WARRIORS

Nor can it be assumed that the male monopoly on warfare has been as eternal and universal as Fukuyama imagines. Gravesites recently excavated in Russia contain the remains of women warriors from the second millennium B.C.—female skeletons buried with weapons and bearing wounds inflicted by similar weapons. The victims of the Neolithic massacre at Jebel Sahaba, mentioned by Fukuyama, included both women and men, and there is no evidence that the perpetrators were exclusively male. Moving back into the Paleolithic Age, when hunting was probably the principal form of human violence, growing archaeological evidence suggests that it was a communal enterprise in which women and children joined men in driving herds over cliffs or into nets or culs-de-sac. Thus, Fukuyama overstates the case when he says that "men [unlike women] have clearly evolved as cooperative hunters and fighters." The male-centered hunting strategy that figured so prominently in the writings of sociobiologists in the 1960s and 1970s—in which a small band of men stalks an

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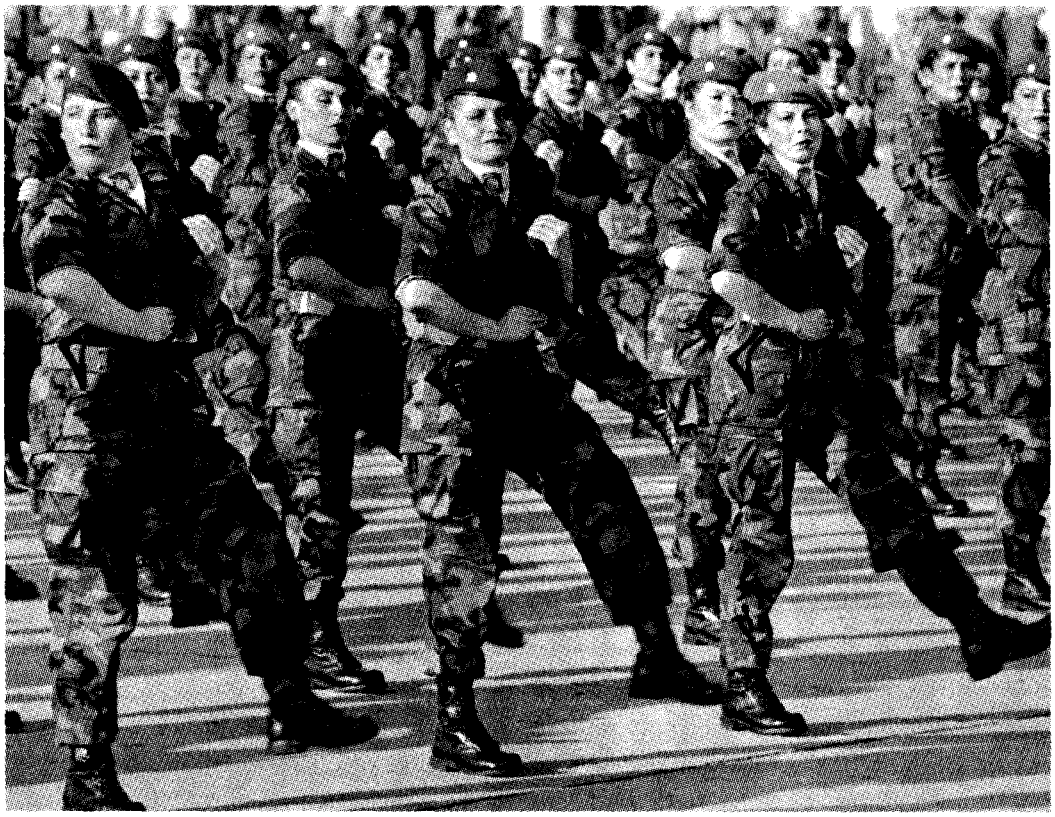

AP/WIDE WORLD PHOTOS

Don't call me honey: Chilean soldiers on parade, Santiago, 1997

individual animal—may be a rather recent innovation, necessitated by declining game populations in the Mesolithic Age.

Myths of ancient civilizations also throw doubt on Fukuyama's assertions. Some of the earliest deities worshipped by humans were female, but they were hardly the nurturing earth mothers imagined by many scholars. The archaic goddesses unearthed from Mediterranean and Mesopotamian ruins or recalled in Mesoamerican mythology were huntresses and avid consumers of blood sacrifices, often accompanied or represented by predators such as lions and leopards. Only later were these terrifying deities "tamed" through marriage to patriarchal male gods and reassigned to agricultural duties. Although the characteristics of the archaic goddesses tell us nothing about the roles of actual women, they do suggest a time when the association of manhood with violence and femininity with gentleness was not as self-evident as it has seemed in the modern age.

MACHO MAN

Whatever our genetic and prehistoric cultural legacies, women in the past two centuries have more than adequately demonstrated a capacity for collective violence. They have played a leading role in nonmilitary violence such as eighteenth- and nineteenth-century bread riots and revolutionary uprisings, in which they were often reputed to be "foremost in violence and ferocity." In World War II, the Soviet military deployed

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I said, don't call me honey: Iranian soldiers on parade, Tehran, 1997

them as fighter pilots and in ground combat. Since then, women have served as terrorists and guerrilla fighters in wars of national liberation. More to the point, women have proved themselves no less susceptible than men to the passions of militaristic nationalism: witness feminist leader Sylvia Pankhurst, who set aside the struggle for suffrage to mobilize English support for World War I by, for example, publicly shaming men into enlisting. Fukuyama concedes that, among heads of government, Margaret Thatcher is an exception to his gender dichotomy but ignores the many exceptions on the male side of the ledger—such as the antimilitaristic, social-democratic Olaf Palme and Willy Brandt. Nor does he mention the gender of the greatest pacifist leaders of the twentieth century, Martin Luther King, Jr., and Mohandas K. Gandhi.

But perhaps Fukuyama would concede all of the above, for in the end he has little use for his own dubious claims about the inherent aggressiveness of men and niceness of women. Up until the last three pages of his essay, one might assume that he was gearing up to demand solely masculine leadership, if not participation, in the arenas of politics and war. But no. Women in the military? His only objection has to do with sex as an activity rather than a category, which leads him to the mild suggestion that men and women should be segregated into separate combat units. As for political leadership, he worries a little that the female, and hence

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over-kindly, heads of state who arise in the northern democracies will be a poor match for the macho young males whom he expects to dominate the south. But even here he quickly backtracks, admitting, "Masculine policies will be still be required, though not necessarily masculine leaders."

If, as Fukuyama concludes, either sex can be "masculine" in both admirable and execrable ways, what is the point of his essay, with its lengthy excursion into the supposedly murderous habits of cavemen and chimps? Perhaps Fukuyama is right about one thing: Whatever the innate psychological differences between the sexes, a certain male propensity for chest-thumping persists, and can be found among desk-dwelling American scholars as well as alpha apes.

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Father Knows Best

KATHA POLLITT

In his 1989 essay "The End of History?" Fukuyama argued that liberal capitalist democracy was the final stage of political organization toward which the whole world was tending. Today, it seems clear that history will continue to occur, fueled by familiar energies—nationalism, religious mania, the will to power of powerful men, drastic inequalities between and within nations, economic cycles of boom and bust. Undaunted, Fukuyama is back with another idea. He prophesies that the increasing political power of women in wealthy Western countries will incline those countries against war because evolution has made violence, aggression, and status competition hardwired components of male, but not female, nature. As with chimpanzees, so with humans: From rival male chimps tearing each other to pieces it is but a step to the famously violent Yanomamö of the Amazon, and before we know it we are on familiar twentieth-century killing grounds—the Holocaust, Rwanda, Bosnia.

But Fukuyama warns that this female peacefulness poses dangers to the West. Other parts of the world where female infanticide and sex-selective abortion result in heavily male populations will become more pugnacious. Are Western women up to the challenge of a testosterone-saturated Asia? And what about women in the army? If men are genetically destined to bond only with other men and to compete perpetually for females, will coed army units degenerate into Peyton Place in camouflage?

In arguing for his story of things to come, Fukuyama strays all over the ideological map. He draws on "evolutionary psychologists" to portray men as the main source of human violence, but he ignores those theorists' other claim that male dominance and female acceptance thereof are permanent features of human nature. He mocks radical feminists for dreaming that men can be socialized to be more humane, but he simultaneously imagines that these same unreformable men will simply let women steer the ship of state into tranquil waters. He projects into the future current practices that fit his vision, without acknowledging the possibility that those practices may change. Is it so obvious that Asians will still be aborting female fetuses in 20 years after a generation

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of pampered sons has been unable to find wives? Are we so sure that Europe and Japan, faced with rapidly aging populations, will just grow gray in a corner? Perhaps these wrinkled nations will become more immigration-friendly, like the United States. Indeed, France, Italy, and Spain are already experiencing enormous pressure as illegal immigration from eastern Europe and Africa increases. The new German government has just loosened citizenship requirements, suggesting that xenophobia is not the only response to demographic change.

EVOLUTIONARY PSYCHOLOGY IS BUNK

So what is wrong with Fukuyama's argument? Just about everything. First, he argues that science has discovered the genetic roots of human behavior. This is quite untrue; "evolutionary psychology" is just a theory. It is certainly not the case that "hardly a week goes by without the discovery of a gene linked to a disease, condition, or behavior," although it is indeed true that hardly a week goes by without someone claiming to have discovered such a gene. No one would dispute that diseases can have genetic components, but behaviors? The much-publicized "alcoholism gene" turned out not to exist, which should make Fukuyama cautious about such sweeping statements. In fact, no single gene has ever been discovered that by itself determines a human social behavior; it is a long way from cystic fibrosis to marital infidelity. And it has not even begun to be demonstrated that a complex piece of human behavior like violence or competition could boil down to X or Y chromosomes.

Evolutionary psychologists' theories are popular with the media, which love stories that suggest feminists are barking up the wrong tree and that gender equality is a doomed project. But Fukuyama is wrong to suggest that evolutionary psychology has won the day in science. Fukuyama tends to name the people he agrees with while referring only vaguely and condescendingly to opponents ("radical feminists," "many feminists," "postmodernists"). But Stephen Jay Gould, Richard Lewontin, Steven Rose, and many other scientists make formidable arguments, grounded not in ideology but in biology, against genetic determinism. It is not encouraging that Fukuyama seems unfamiliar with their work.

He argues that men are more violent than women. Someday he may provide actual evidence that this is a biological rather than social tendency. But even if women are innately less violent, they are plenty violent enough to call into question Fukuyama's claim that more female political power would mean more peace. Women commit infanticide, abuse and kill children, mutilate the genitals of little girls, and cruelly tyrannize daughters, daughters-in-law, servants, and slaves. They have also been known to encourage and defend male violence—egging on personal, family, or gang vendettas, blaming the victims of rape and wife-beating, and so on. Historically, cultures organized around war and displays of cruelty have had women's full cooperation: Spartan and Roman women were famed for their "manly" valor. Did Viking women stand on Scandinavian beaches begging their husbands not to pillage France? Did premodern European women shun public executions and witch burnings? As these examples suggest, even defining violence raises questions: The same act

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can be regarded as wrong, psychopathic, glorious, or routine, depending on its social context.

When it comes to organized state violence—war, executions, slavery, concentration camps, and so on—women's pacifism is a distinctly modern phenomenon. So how can it be genetic? You might as well say that today's women explorers, world travelers, athletes, and foreign correspondents prove that women have belatedly acquired that supposedly male gene for "adventurousness." (Fukuyama has clearly never tried to get a middle-class American man to see a foreign movie or try a new cuisine.) As for his claim that group-status competition is a male characteristic—didn't Fukuyama go to high school? Girls and women do not beat each other up as much, but they certainly do compete for status—through clothes, money, boyfriends, popularity, sexuality, cliques, and sororities. "Keeping up with the Joneses" is a form of female competition; so is getting your child into a fancy private school; so is being a groupie or marrying a famous man. Fukuyama concedes that for his supposedly sex-linked traits, each gender falls along a bell curve and that these curves mostly overlap. This contradicts his argument that men are violent and competitive and women are not. If most men and most women fall in the middle range, it is hard to see how gender difference can carry the burden Fukuyama assigns it.

WHY THE DRAFT?

Fukuyama's essay's second flaw is arguing that individual qualities determine state behavior. For him, war is personal violence multiplied by the number of participants. But this is the wrong model. World War II was not fought because a lot of hotheaded young men got together and decided to invade Poland. Nor did the Holocaust take place because groups of young men were competing for status over who could murder the most Jews. War and its atrocities are organized politically, from the top, by leaders who are—yes—usually men. But they are generally old men who are not necessarily personally violent. In modern times they rarely fight—Lyndon B. Johnson never personally threw prisoners of war out of helicopters. It is young men who fight, but how willingly? If war is so appealing to male genes, why has every major modern war required a draft? Why does today's army recruit by touting its vocational fringe benefits?

VOTERS DON'T MAKE FOREIGN POLICY

Fukuyama argues that war and foreign policy are determined by voters, who will be disproportionately female and therefore antiwar. True, women are more likely than men to oppose war—though the difference is hardly as large as a genetic explanation suggests it should be—but wars are not decided at the ballot box. If they were, the United States would not have entered World War I. After all, the mostly male electorate chose Woodrow Wilson, whose slogan was "He kept us out of war." In 1964, voters picked Johnson ("I seek no wider war") over the saber-rattling Barry Goldwater. Nor have subsequent military actions in Panama, Somalia, the Persian Gulf, and Sudan or secret adventures such as supporting the Contras been the subjects of popular votes.

Political power is not merely or even primarily a matter of ballots or public opinion. Most Americans favor handgun

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control, but the National Rifle Association spends millions to make sure it never happens. In the case of war, what matters is not what the voters want but campaign contributions from defense manufacturers and others, the short-term public relations needs of presidents, or the nation's geopolitical interests as interpreted by a Henry Kissinger or a McGeorge Bundy (or a Jeane Kirkpatrick or a Madeleine Albright). Once the powers that be have decided, public opinion can always be manipulated to fall into line. Before the Gulf War, Americans were split over whether to send troops. Antiwar voices were prominently featured in the news. Once the troops were dispatched, however, the media cut off debate and soon it was yellow ribbons all around.

American women have had the vote for nearly 80 years. So far, they have not even won paid maternity leave or affordable daycare, things taken for granted in other industrialized countries. In light of these failures, the assertion that women will be transforming American foreign policy anytime soon, against the will of those now in control, strikes me as a fantasy second only to the notion that genetics will bring it about. It is more likely that as women become more enmeshed in politics and business, with all their compromises and rewards, whatever modest inclination they may now possess toward nonviolent conflict resolution will be swamped by other factors: vanity, greed, fear, perceptions of national interest, lust for cheap oil.

Fukuyama's article is so confused and contradictory, so lacking in real evidence and logic, that one wonders what it is really all about. Despite his professed sympathy for women's claims to fuller citizenship, he suggests no means by which to move them along. He does not, for example, urge political parties to put forward gender-balanced lists of candidates, as happens in some European countries. Indeed, the only concrete proposal Fukuyama makes is to restrict women's citizenship by limiting their military role. Women make up only 12 percent of Congress and hold only three governorships, the first two female Supreme Court justices are still on the bench, but Fukuyama is worried that the girls are about to seize power and turn the United States into an international wimp.

Forget feminism, genetics, or evolution. What we have here is basically a convoluted variation on two old conservative themes: When it comes to the military, too much is not enough, and when it comes to foreign policy, father—not mother—knows best.

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Perilous Positions

R. BRIAN FERGUSON

In his desire to prove that world conflicts have a basis in biology, Fukuyama makes a number of outright errors.

First, chimpanzees do not "routinely" murder their peers. The famous incident at Gombe that Fukuyama refers to occurred only after major human-induced changes, most important of which was the researchers' artificial provisioning of

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bananas. Other reported instances of "chimp wars" also took place in stressful situations. Primatologist Margaret Power offers a contrasting view: "Virtually everywhere that they were studied by naturalistic methods, undisturbed wild chimpanzees live peacefully in nonaggressive, nonhierarchical groups." Fukuyama fails to note that the lesser-known bonobos are as closely related to humans as chimpanzees and display no tendencies to collective violence.

A debate rages within the anthropology of war about the relationship between the high rates of violence observed in tribal societies and the behavior of our distant ancestors. Fukuyama takes one side. On the other, copious evidence documents dramatically increasing violence after Western contact. Disruptive factors—new weapons, trade rivalries, demand for slaves, and forced migrations—transformed and intensified indigenous warfare. This higher-level carnage has been incorporated into our theories and images of "primitive war." War leaves many recoverable archaeological signs, and global findings are straightforward and consistent: Evidence of war is rare until long after a shift to agriculture and the development of hierarchical social systems. War emerges late in human history because it is difficult to organize without authority. Fukuyama's conclusion that "the line [of collective violence] from chimp to modern man is continuous" is a breathtaking leap over a mountain of contrary evidence.

On the connection between violence, gender, and age, Fukuyama's position is again perilous. A 1993 review of aggression literature concludes, "In laboratory studies of human aggression, where the use of physical aggression is controlled and the possibility of escalation of violence is eliminated, there is little difference in the frequency of aggression in males and females." The evolutionary psychology Fukuyama follows claims that most violence is done by young men. The study cited to support this human universal is based on contemporary homicide statistics, primarily from Detroit. Crime patterns in modern industrial cities tell us no more about our distant past than do statistics on automobile fatalities. Ethnographic data on war in tribal societies provides an entirely different picture. War leadership and killing are usually tasks of middle-aged (by local standards) family men, while young men go along as apprentices.

Men make war. There are important exceptions, but they are rare. Yet women are often among the most vocal advocates of war, making a gendered disposition to peace hard to support empirically. Why not more women warriors? Because war is work, and all tribal societies have pronounced, gender-specific divisions of labor. Women get tasks compatible with pregnancy and child-rearing; men get those that put a premium on strength and endurance. Tribal men also get the job of long-distance trade, but no one claims men have a gene for shopping.

Fukuyama asserts that having viewed "international relations through the lens of sex and biology . . . it is very difficult to watch Muslims and Serbs in Bosnia, Hutus and Tutsis in Rwanda, or militias from Liberia and Sierra Leone to Georgia and Afghanistan . . . and not think of the chimps at Gombe." This is ridiculous and misleading. Recent world conflicts have occurred in an intricate political field complicated by the intersection of local structures and global forces. Fukuyama

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replaces this understanding with a crude discussion of chimp behavior, aggressive young men, and biological tendencies.

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Prehistory Returns

LIONEL TIGER

A remarkably valuable feature of Fukuyama's essay is that he admits he was wrong—not by acknowledging that the earlier approaches to macropolitics with which he made his reputation were incorrect but by emphasizing the bizarre distinction made between natural and social sciences. This has let social scientists believe they can conduct research quarantined from neurophysiology, paleoanthropology, genetics, endocrinology, and the comparative study of animal behavior. It is now overwhelmingly clear that, however complex, humans are subject to the same rules as other species and thus that human studies should not work in isolation. It was recently revealed that only 50 genes distinguish us from chimpanzees—with whom we otherwise share some 100,000.

Fukuyama has moved from the "end of history" to the beginning of prehistory, a study that will soon be required for contemporary political history. He understands that much of feminist theory entails profound disruptions in how human beings have always balanced production, reproduction, and civil society. Fukuyama's appropriation of prehistory lets him recognize that the overwhelming mass of traditional political analysis—even when described as "human behavior"—has been about the behavior of males.

Feminism has produced two contradictory assertions: first, that men and women are the same and that any important behavioral differences result from discrimination, sexism, and patriarchy; second, that women are different and morally better than men. The first assertion is employed most often by lawyers, who conclude that there should be as many women in any job, sport, club, party, or cabinet as there are in the relevant population. The second assertion is made by Carol Gilligan, whose *In a Different Voice* proposes that girls pursue moral behavior and social harmony better than boys because, well, because they are girls. The fact that sexual differentiation in negotiating strategies also emerges in other primates does not affect the feminine sentimentality that propelled Gilligan's work to prominence. Other writers, including feminists such as Katha Pollitt and Christina Hoff Sommers, criticized the Gilligan approach. Nevertheless, it stimulated efforts to restrict male behavior, stigmatize males as generally brash and insensitive, and claim that girls suffer from low self-esteem because they conform to male wishes. That women generally do better than men in the educational system and now compose 55 percent of the college population does nothing to discourage such zealous misinterpretation.

Fukuyama acknowledges the genetic male propensity to competition and violence. In our 1971 *The Imperial Animal*, Robin Fox and I proposed that the central question of any social system is "What do we do with the young males?" The question remains central today, especially in economies unable to generate jobs

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for them. Fukuyama suggests that the introduction of more women into the controlling systems of society, especially in politics, will give a pacific tone to national and international action. For this view, he cites some opinion-poll data about the support for military adventure, examines the behavior of the few female leaders involved in military decision-making, and could have noted the preference of many females in contemporary militaries for "operations other than warfare."

But though Fukuyama's forecast that political change will accompany changes in the sexual composition of leadership is plausible, the picture remains conjectural. There is no empirical evidence of large-scale, long-term social structures that have been created and maintained exclusively or even largely by females. The overworked myth of matriarchy notwithstanding, we do not have good examples of groups of women engaged over generations in creating and sustaining public organizations such as armies, religions, police forces, or even international businesses. It remains an open question if there is a female equivalent to the omnipresent male bonding that encourages the alloy of assertion and self-sacrifice at the heart of a community's central power structure. The political gender gaps emerging in liberal democracies certainly suggest the beginnings of such edifices.

It is possible, even if unlikely, that one response to greater female influence will be greater male belligerence and even violence against them. At the same time that the Taliban restricts women from kindergarten, radical activists restrict women from abortion in the United States. In the contemporary world, there is nowhere for women and children to go. We receive daily bulletins about the bewilderingly lethal intransigence of male leaders committed to some program of desperate importance to them. The struggle for social control may be one that women choose not to take up.

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States Make War

JANE S. JAQUETTE

Fukuyama gives insufficient weight to the dynamics of the nation-state system in explaining both war and peace. Wars start not in biology—instinctual male aggression—but in realpolitik—a state's need to defend itself from outside threats. War does not come naturally to humans. Men must be trained to fight and kill others, and all people must be taught patriotism. States go to great lengths to demonize their enemies.

State power explains the brutality of internal ethnic conflicts such as those in Bosnia and Rwanda. Fukuyama mistakenly cites these examples to hammer home his equation of humans with murderous chimps. But control of the state involves high stakes, with winners deciding how laws are made, taxes applied, and access provided to economic and educational opportunities. Unsurprisingly, competition is fierce when the incentives are so large.

Fukuyama suggests that women are more pacifistic than men. Several decades of research shows that women do differ from men regarding war. Women are markedly less interested in

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and knowledgeable about it. Women prefer lower military expenditures in times of peace and negotiations instead of force. But this does not mean that women are unaggressive; they can sometimes be more aggressive than men. When women are allowed to carry arms, they are often fierce fighters, as was true of many Central and South American guerrillas. Once war commences, there is little evidence that women withhold support from the male-dominated state. Today many women receive military training and press to go into combat—not to satisfy their hardwired desire to kill but to succeed in military careers that require proving oneself on the battlefield.

If women are more inclined to negotiation, what difference does it make? The cliché Fukuyama cites is that more women leaders would mean more peace. But female leaders face the same pressures as men. For every Mary Robinson or Gro Harlem Brundtland who has made peacemaking a focus of her leadership (and who probably represents a small European state that can afford to promote peace because it relies on the protection of larger powers), there is an Indira Gandhi or Margaret Thatcher leading a major power that uses force to achieve its foreign policy and domestic goals.

But these women may have been forced into male posturing because there are so few female leaders. If there were a critical mass of women leaders or if nation-state sovereignty gave way to international law, the argument goes, international relations would include less interstate competition and more global cooperation. This would spotlight social issues and organizations in which women already play important roles. As women's traditional concerns become top priority issues, women's say in foreign policy debates will rise.

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Is Kosovo Real?

The Battle Over History Continues

What Ancient Hatreds?

NOEL MALCOLM

Readers who have followed Aleksa Djilas' writings on Bosnia over the last six years will not have been surprised by his systematically hostile and misleading treatment of my book, *Kosovo: A Short History* ("Imagining Kosovo," September/October 1998). But they may still have been puzzled by some aspects of his review, such as his desire to belittle me personally.

In his very first paragraph he refers to some of my other books and says it is "tempting" to dismiss my work in those fields as that of a "charlatan." Why this immediate resort to a personal slur, when he has clearly never seen the books (apart from the one on Bosnia) and knows nothing of my scholarly reputation in other fields? In the next sentence he magnanimously concedes that my book on Kosovo is the work of a talented "amateur historian": again, why the patronizing gibe, when he knows from the book's cover that I have a doctorate in history and have taught at Cambridge University for seven years?

The answer can be found in Djilas' method of argument. Readers of my book know that I present and analyze a mass of factual evidence, carefully referenced to sources drawn from the whole range of existing literature in what Djilas, with characteristic inaccuracy, calls "a dozen languages." (The correct figure is 20.) A serious critic trying to disprove my findings would surely present some counter-evidence, but Djilas never does. Instead, he simply makes *ex cathedra* pronouncements that I am wrong and he is right. This rhetorical method requires an audience primed to believe that I am at best an amateur and at worst a charlatan, while Djilas is the real expert, superior in both knowledge and objectivity.

But is this so? Djilas is a sociologist, with no historical training, no known expertise, and no published work in the fields of Ottoman, Albanian, or earlier Balkan history. He has written one book in a broadly historical format, a study of the development of the Yugoslav political system between 1919 and 1953. What sets that study apart from most accounts of twentieth-century Yugoslavia, however, is its total lack of interest in Kosovo. In its 259 pages Djilas does not devote a single paragraph to Kosovo, even though the book claims to cover

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"the national question" of Yugoslavia during the period.

If Djilas' judgments are not based on superior knowledge about Kosovo, they are certainly not grounded in superior political objectivity. Readers who think of him as a liberal intellectual on the basis of his 1980s Western journalism may not have noticed the major change in his approach since he began revisiting Belgrade in 1990 and returned to live there permanently in 1993. From almost the start of the Bosnian war he has been advocating the dismemberment of Bosnia (which means rewarding the ethnic cleansers with the land they have cleansed); exculpating, in effect, the cleansers by implying that their mass murders and expulsions were to a large degree just the products of deep historical causes; suggesting an overall moral equivalence between Alija Izetbegović, who tried to defend Bosnia, and Slobodan Milošević and Radovan Karadžić, who launched a war of destruction against it; and buttressing his argument with the unhistorical and undocumented claim that Bosnian Islam was "particularly harsh" and discriminatory throughout the Ottoman period.

VATICANOPHOBIA

Despite some deprecating remarks about nationalism in the abstract, Djilas' position on these issues is indistinguishable from mainstream Serbian nationalism. Therefore, I was not surprised to see that several points in his review were apparently derived from two polemical attacks on my book by British and American Serb nationalist lobbies in the *Times Literary Supplement*—points to which, as he must know, I have already replied. He complains about the "half a dozen Albanians" thanked in my acknowledgments. Djilas does not divulge, of course, the one specific thing for which those Albanians are thanked—namely, supplying me with copies of hard-to-find books and articles. What makes this complaint especially absurd is that, as Djilas must know from my previous reply on this point, many of the works I obtained from those people were actually by Serb authors.

Similarly, he offers as evidence of my "bias" the fact that I have consulted libraries and archives not in Orthodox countries, such as Greece and Bulgaria, but mainly in Catholic ones, such as Austria and Italy. This categorizing of archives not by their objective relevance to the subject of research but by the creed of the country in which they are situated has the authentic whiff of Serb nationalist Vaticanophobia. If Djilas were familiar with the works of serious Serbian scholars on the Ottoman period of Kosovan history, he would know that the archives on which they have depended (apart from ones in Istanbul and Ankara) are precisely the ones I have used, in Vienna, Venice, Rome, and the Vatican. There is nothing of remotely comparable importance in Greece or Bulgaria (apart from some medieval documents on Mount Athos, available in published collections). Sadly, Serbia itself possesses no archive properly covering that long period of Serbian history. Most early documents that have survived in Serbia, and many from the modern government archives, have been published, and I have consulted them in print. As for books published in Greek and Bulgarian relating to the history of Kosovo, there are few of these and I have read most of them.

It is quite evident from my detailed endnotes and bibliography that I have read a very wide range of Serbian works.

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But I have also read the large body of scholarly work in Albanian, of which Djilas is ignorant. (The number of works by Serbs and Montenegrins in my bibliography nevertheless exceeds the number of works by Albanians.) Having studied both sides, I have sought to produce an objective history in which I dismantle myths wherever I find them; Djilas, with a limited knowledge of what has been written on one side only, seeks to pass judgment on me as "biased."

SERBS HAVE MANY MORE MYTHS

It is a simple fact that there are many more Serbian myths about Kosovan history than Albanian ones. My book therefore contains more rejections of Serbian claims—not because it is anti-Serb but because it is anti-myth. Not once in his long review does Djilas bother to mention that I also reject some of the most deeply cherished Albanian myths, such as the myth of a medieval Albanian majority in Kosovo or the myth of a socially progressive, independence-seeking League of Prizren. Djilas complains bitterly of my "perverse eagerness" to dismantle the myths surrounding the so-called "Great Migration" of the Serbs in 1690. Unable to challenge the historical truth of my findings, which differ from the traditional Serb nationalist account, Djilas denigrates my motives instead. He also resorts to outright misrepresentation, quoting from a review of my book by Tim Judah in *The New York Review of Books*, which observed that my findings on this issue were like saying that the Mayflower sailed from America to Britain. By quoting this remark out of context, Djilas gives the impression that my conclusions have been judged self-evidently absurd. In fact, the point of Judah's comment was to suggest, in a hyperbolic way, the extent to which the false beliefs I correct are embedded in Serb historiography. Two sentences later, Judah went on to describe my case as "convincing."

Djilas notes that I sometimes use the word "Kosovar" for the Albanians who live in Kosovo; he declares this an ignorant "misnomer" because he thinks the word necessarily implies a special national identity for Kosovars, distinct from the Albanians of Albania itself. Clearly Djilas has no idea of the functioning of adjectival and substantival suffixes in Albanian. The word "Kosovar" is just an Albanian word for an Albanian person who lives in Kosovo; it carries no implications of separate nationhood vis-à-vis the Albanians of Albania. Djilas suggests that I have made a "deliberate" attempt to deceive readers into thinking that Kosovo is a "well-established historical-political entity." This displays another of his methods: while attributing invented motives to me, he suppresses explicit things I have said. In the very first pages of my book I emphasize that Kosovo "is not . . . a historic unity," observing that the relevant facts have been "grossly misrepresented" by some Albanian spokesmen intent on claiming a long, continuous history for Kosovo as a political entity. Does Djilas really believe I am deliberately promoting an idea I so explicitly dismiss or does he just not care how gross his misrepresentations are?

He also attributes to me things I have never said. According to Djilas, I believe that "reintegration and interethnic harmony" are bound to happen automatically in Bosnia, whether or not the NATO force stays there. I do not believe this and have never said it. The war in Bosnia has left a terrible legacy of fear and suspicion. The

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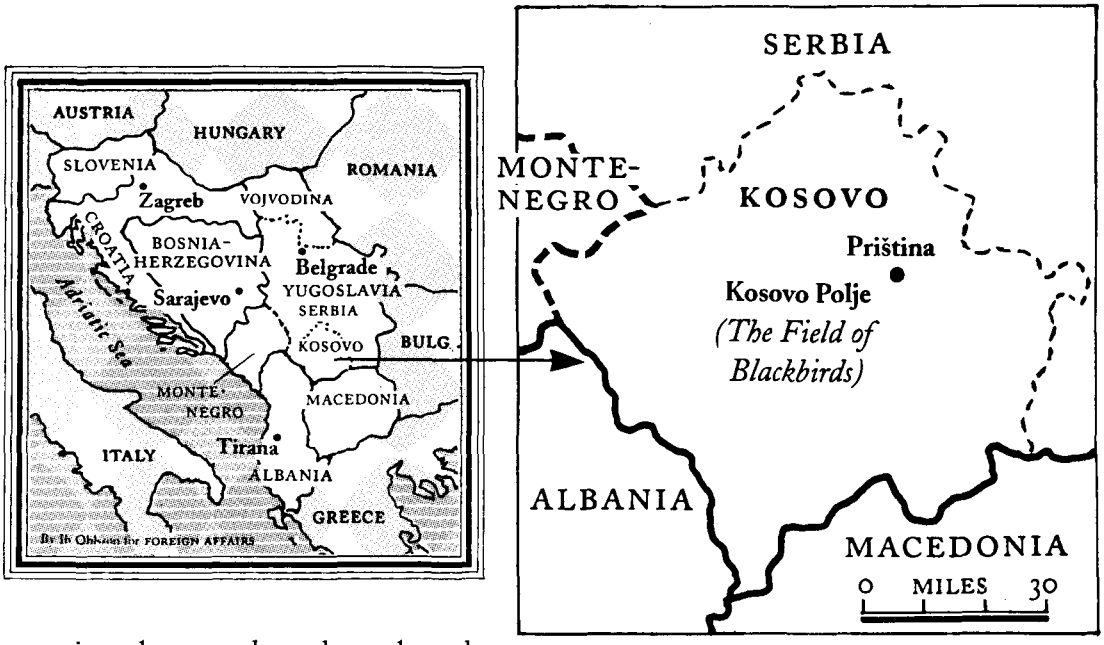

extremists who created murderous hatred are still perpetuating it. NATO is needed precisely to protect people from them, to challenge and dismantle their power structures, and to consign the leading extremists to The Hague.

INCONSISTENCY?

Which brings me, finally, to Djilas' general charge on the question of "ancient ethnic hatreds." He believes that the long-term history of Kosovo (and Bosnia) is a history of ethnic conflict and accuses me of naiveté or manipulation because I argue otherwise. "[Malcolm] searches obsessively," he writes, "for those rare historical occasions when Albanians and Serbs fought on the same side rather than against each other." The "rare" occasions to which he refers include all the most important events in Kosovo before the mid-nineteenth century, from the Battle of 1389 to the great protest march of 1822. A serious reviewer, dismissing these major events as atypical, might be expected to give some counter-examples; Djilas does not give a single example of an ethnically based clash between Serbs and Albanians during that period, even though he thinks they were an everyday occurrence.

Anachronistically, Djilas projects a permanent "ethnic" Serb self-consciousness onto those earlier centuries. Discussing the rapacious behavior of Muslim Albanian landowners toward Christian Serb peasants in the late Ottoman period, he says that "the oppression would not have been possible had there not been ethnic and racial awareness and had the Serbs not been considered a different and inferior ethnic group." On the contrary, the oppression would have been, and very evidently was, possible toward non-Muslims of any variety. As my book shows, Christian Albanians underwent the same oppression or worse, because they were Catholics. Conversely, Serbs who converted to Islam enjoyed the same privileges as all other Muslims. Djilas' comments only indicate how closely he adheres to Serb nationalist historical doctrine.

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The conclusions Djilas draws from his *a priori* assertions about ancient ethnic hatreds are, nevertheless, puzzling. He thinks that ineradicable hatreds in Bosnia justify its dismemberment but that such animosities in Kosovo can never justify removing Kosovo from Serbia. This glaring inconsistency is never addressed. Contrary to another of his false remarks about me, my own position contains no such inconsistency, because I do not argue from "ancient ethnic hatreds." I support the claim that the territory of Republika Srpska is an intrinsic part of a Bosnian entity based on criteria of historical continuity and ethnic geography; the claim that Kosovo is an intrinsic part of a Serbian entity is extremely weak on both of those criteria. While Kosovo did not exist as a political unit for most of the Ottoman period, neither did Serbia; the Kosovan territory has been legally part of a Serbian unit for just over 50 of the last 500 years.

Djilas solemnly warns that "an independent Kosovo would immediately unite with Albania." I do not know a single serious analyst of Kosovan or Albanian politics who believes this; certainly the political leaders of the two territories, many of whom I have interviewed, do not. Djilas reluctantly accepts some autonomy for Kosovo in Yugoslavia, but insists above all on "autonomy inside Kosovo for majority-Serbian regions." This autonomy-within-autonomy proposal seems, however, to have been slightly sanitized from the hard-line plans he expounds in the Belgrade media, where he says that key parts of Kosovo must remain "under the direct administration of Serbia" and advocates a "leopard skin" pattern of such areas across the whole Kosovan territory. Djilas is entitled, of course, to express his ideas about how to maintain Serbian power over Kosovo against the wishes of the overwhelming majority of its inhabitants. What he is not entitled to do is to engage in the wholesale misrepresentation of my book merely because my findings make so many of his own preconceived ideas about Kosovo impossible to sustain.

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Modern Problems

NORMAN CIGAR

In reviewing Malcolm's book, Djilas displays considerable emotion and angst. Lawyers are told to pound the law when the law is on their side, and when it is not, to pound the table. Djilas too often has to do the latter. He does not come to grips with Malcolm's book, which is a much-needed and innovative reappraisal.

Djilas is rushing to supply new myths that will legitimate Serbian Kosovo policy when the old ones fade. One myth is that Kosovo and the Kosovars have no identity—meaning, no right to a separate identity. He says there cannot really be a history of Kosovo since Kosovo's borders have changed over the centuries. (Were that logic adopted, few countries, including Poland, the United States, or even Serbia, would have a history.) In addition, the Kosovars may not really deserve a history because they are "a minority . . . not a nation." Djilas even objects to using the name Kosovar, though the Serbs in northern Bosnia often call themselves Krajisnici and the Serbs in Montenegro Montenegrins.

In fact, Belgrade has viewed Kosovo as a separate entity since its seizure in 1912.

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Kosovo was the subject of a special policy in the 1920s and 1930s, which included colonization projects and plans for expulsions, until autonomy was recognized as a necessary shield for the Titoist system. The harsh, systematic treatment and segregration of the Kosovars for much of the twentieth century has probably bolstered their territorial and community identity.

Djilas writes that Malcolm does not understand that the Kosovars have themselves to blame for not participating fully in Serbian politics. But who could they vote for, even in a free election? The major Serb opposition parties are much more hardline on Kosovo than even Milošević. They have called for mass expulsions since the mid-1980s.

What petrifies the Serb political class is that within a generation ethnic minorities combined will outnumber the Serbs; within two generations the Albanians alone will outnumber them. Three provinces of southern Serbia already have an Albanian majority. In a system where legitimacy is based on extreme nationalism, harsh rule of the Albanians and the current Serb dominance over politics, the economy, and the military will be very hard to maintain as a minority population. The ultimate dilemma for Milošević is that he does not want to integrate the Albanians but he wants to retain Kosovo. Serb elites will seek to prevent minority Serb status there by any means.

As Malcolm's work makes clear, this is a modern nationalist problem, not an issue that was salient to medieval monarchs, much less a linear result of the Battle of Kosovo in 1389.

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No Return Home

MELANIE MCDONAGH

I was not surprised at the nationalist tone of Djilas' review. During the course of personal conversations with Djilas, he has more than once called the massacre of thousands of Muslims in Srebrenica malign Western propaganda. He has, on the record, supported the partition of Bosnia. This view is easy to hold from the comfort of Belgrade, but it is less attractive to those families who were violently expelled from their homes in what is now Republika Srpska. They want more than anything else to return home, if they could without the certainty of violence and intimidation.

Djilas is, quite justly, a supporter of the principle that Serbs who fled the 1995 Croatian army offensive in the Krajina should be entitled to return safely home; if he visited, say, Sanski Most to talk with people who were ethnically cleansed from towns like Prijedor and Omarksa, he would find out exactly why it is that Muslims are unable to return to where they came from.

MELANIE MCDONAGH *is a journalist, formerly with* The Evening Standard *of London.*

Wrong on Albania

KATHLEEN IMHOLZ

Djilas' review makes three statements concerning Albania that are dangerously wrong.

First, he writes, "An independent Kosovo would immediately unite with Albania." This is not true, despite the

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rhetoric outside the region. Although American, I have been living in Albania for two years, know the language, read all the newspapers, and talk daily to dozens of people from every walk of life and political persuasion. Albanians do not like the great powers' division, which left millions of ethnic Albanians outside the country's borders, but they show little desire to change those borders now. A plebiscite to unite an independent Kosovo with Albania would be overwhelmingly defeated.

Second, Djilas claims that union with Albania would "upset the precarious balance between Albania's mutually antagonistic Geg north and Tosk south." The north and south of Albania are not mutually antagonistic, and the balance between them is hardly precarious. The antagonistic streak in the country has little relation to regionalism.

Third, union allegedly "could restart the 1997 civil war." There was no civil war here in 1997; I know, because I lived through the tumult. I was accidentally trapped in Vlora when the state of emergency was declared last March and the army mobilized to march on Vlora. The army dissipated rather than shoot at its own citizens. I suppose a civil war can be defined in many ways, but I do not use the word to describe a relatively small number of armed people terrorizing a civilian population that does not support them.

I wish Djilas understood Albania better. The Kosovo situation cannot be seen clearly when there are such misconceptions.

KATHLEEN IMHOLZ *is a Fulbright Fellow and Director of the Program for Improvements in Albanian Legal Education, Tirana, Albania.*

Greater Albania Ahead

PREDRAG SIMIĆ

Djilas' review points to three significant aspects of the Kosovo problem.

Kosovo has an important place in the national consciousness of both Serbs and Albanians. For the Serbs, Kosovo is part of their national territory, a region of great strategic and economic importance, and the cradle of their identity—a place with a concentration of Serbian historical, religious, and cultural monuments. It is the Serbs' Jerusalem. For the Albanians, Kosovo is the birthplace of the Albanian national movement and a territory where they are the ethnic majority. It has always been the focus of Albanian irredentism. These factors have always made conflict over Kosovo intractable.

The historical goal of Albanian nationalism has been the unification of all Albanians. Albanian leaders will not settle for anything less than Kosovo's secession from Serbia as a first step toward unification, as made clear by recent statements by the Kosovo Liberation Army's spokesman, Jakub Krasniqi.

Kosovar Albanians' mass demonstrations following Tito's death disturbed the ethnic balance in the former Yugoslavia and triggered the rise of nationalist movements in the republics. Their subsequent boycott of Serbian elections and political institutions allowed the homogenization of Serbia—causing the political crises of present and former Yugoslavia. Unlike the Albanians, all other ethnic communities in Serbia (more than 26) have chosen to struggle for their interests through the system's political institutions.

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The secession of Kosovo would send shock waves through the Balkans, directly affecting Macedonia, with its large Albanian community, and Albania, increasing the tensions between the Gegs and Tosks. The drive to create Greater Albania is one of the most dangerous threats to the peace and stability of the Balkans—a point clearly missing in Malcolm's book.

PREDRAG SIMIĆ *is the former Director of the Institute of International Politics and Economics, Belgrade.*

Facts First

STEVAN K. PAVLOWITCH

As one who has studied Balkan history for over 40 years and taught it for 30, I do not think that Malcolm's book is a profound, as opposed to an impressive, work of scholarship.

The very name Kosovo is imprecise. The site of the Battle of 1389 and the Ottoman province are not the same as the 1945 Yugoslav province to which we refer today. For Malcolm to say that we can read a Kosovan history to ancient times is cheating. *Kosovo: A Short History* is often just Ottoman history or Albanian history.

The early history is hardly new: Malcolm compounds popular nineteenth-century simplifications of the kind once widespread in Europe into an authorized version that he attributes to "Serbian historians" and then proceeds to knock down with the help of . . . twentieth-century Serbian historians.

Malcolm wants to show that Serbian, Montenegrin, and Yugoslavian policies from 1912 onward are the core of the Kosovo problem and that independence for Kosovo is the only way out. I happen to agree, but it should have been the conclusion the historian drew from the evidence, not an assumption made first and then bolstered with evidence.

None of that detracts from his advocacy of a united Bosnia and a separate Kosovo, both of which are tenable causes.

STEVAN K. PAVLOWITCH, *Professor of Balkan History, University of Southampton, U.K.*

Djilas Replies

Noel Malcolm is unfair when he says that my review of his book is "systematically hostile." While undoubtedly critical, it also praises his knowledge and writing skills and recommends that the book be translated into Serbo-Croatian and published in Belgrade.

He is offended by my compliment that he reads "a dozen languages." Dozen, needless to say, does not only mean 12 but also, according to the dictionary, "a fairly large indefinite number." Yet Malcolm assails my supposedly "characteristic inaccuracy" and insists that the "correct figure is 20." Does he really expect a reviewer to go through his whole bibliography and count the languages?

I have been writing on the national question in former Yugoslavia and its successor states for almost two decades. But contrary to what Malcolm says, I do not consider myself "the real expert." I doubt that anyone can be the expert in such a complex field as the study of nationalism. Indeed, being aware of the limits of our knowledge is a prerequisite to any objective, dispassionate, mature understanding of the Kosovo problem.

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I am not the only one who has questioned Malcolm's fairness. *The Economist* (March 21, 1998) points out that Malcolm is "driven by true passion" and reproaches him for "his desire to bash the Serbs," while Mark Mazower in the *Times Literary Supplement* (August 7, 1998) writes that Miranda Vickers' *Between Serb and Albanian: A History of Kosovo* "offers a more balanced approach than Malcolm's book," which is "a brilliantly skillful case for the Albanian prosecution."

Malcolm has received his most lavish compliments from British politicians who fervently advocate military action against Serbia, such as Paddy Ashdown, the leader of the Liberal Democratic Party; Norman Stone, former adviser to Margaret Thatcher and now professor of international relations in Turkey; and Michael Foot, former leader of the Labour Party. None of these people write about Yugoslav history or speak any Yugoslav language, but Malcolm does not question their competence to praise his book.

Malcolm insists that Bosnia should remain a unitary state because its unity has roots in medieval times. Not being a specialist on the period, I decided to ask Sima Cirković, author of the classic *History of the Medieval Bosnian State* and the leading authority on the Serbian Middle Ages, for his opinion. (Let me add that Cirković is a well-known debunker of Serbian historical myths, including the one that medieval Bosnia was simply a Serbian land.) Cirković replied that he found Malcolm's treatment of medieval Bosnia superficial and that Malcolm did not understand either the dynamics of its formation from heterogeneous elements or how insufficiently integrated Bosnian society was.

My writings criticizing Serbian nationalism in general and the policies of Slobodan Milošević in particular are too numerous to list here. It suffices to look at "A Profile of Slobodan Milošević" (*Foreign Affairs*, Summer 1993) to refute Malcolm's claim that I deprecate Serbian nationalism "only in the abstract." I agree with many of Malcolm's harsh statements about Serbian nationalism and the responsibility of Serbian leaders for war crimes. My problem with Malcolm is that he is much less critical of the Croatian, Muslim, and Albanian leaders. And I part company with him when he pushes descriptions like "Alija Izetbegović, who tried to defend Bosnia."

I visited Sarajevo in 1996 and saw the results of Izetbegović's rule. From this city, which according to Malcolm and many other Western journalists is a haven of multiethnic tolerance, the large majority of Serbs and Croats have been expelled. The remaining minority is exposed to intimidation and violence by Muslim extremists. Almost all streets with old Serbian and Croatian names have new Muslim ones, the language has been changed through the introduction of Turkish, Arabic, and Persian words, and the media is permeated with nationalism and fundamentalism. The brutal reality of these irreversible changes has made me conclude that although Bosnia's partition is a tragedy, there is no alternative. I say this with great sorrow, but it would take a superhuman task to put the clock back.

Malcolm might reply that these are all consequences of Serbian aggression. That is only partly true. It is enough to read Izetbegović's fundamentalist "Islamic Declaration" from the early 1970s to see that he strove for Muslim hegemony. Or

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Richard Holbrooke's *To End a War*, in which the architect of Dayton describes Izetbegović as one who "paid lip service to the principles of a multi-ethnic state," but was "not the democrat that some supporters in the West saw." Roger Cohen's *Hearts Grown Brutal: Sagas of Sarajevo* paints a similar portrait of Izetbegović: "As the founder of the first nationalist party in Bosnia in May 1990, he chose a treacherous path, one more inclined to rouse the flames of nation-as-tribe than lay the foundations of a citizen state." This is not to whitewash Milošević but to accurately portray how all the groups of the former Yugoslavia contributed to its demise and civil war. Unmitigated Serb-bashing has fed Serbian paranoia and, like NATO bombing threats, actually makes Serbs more willing to tolerate Milošević's policies.

I do not suffer from "Vaticanophobia," as Malcolm suggests, but he is right that many Serbs do. The recent beatification of Cardinal Stepinac, the chief Croatian clergyman of the fascist World War II regime that pursued genocidal policies against Serbs, Jews, and Gypsies, is not likely to cure them. Nor is Malcolm's declaration of the superiority of Catholicism to Orthodoxy. He considers Orthodoxy almost exclusively "devoted to mystical theology" and claims that as a result Orthodox countries "had fewer chances to develop the habits of critical social and political thinking which were generated in the West by the Catholic Church and its Protestant offshoots." This, says Malcolm, is one reason why "the Serbian people have been, at some moments in their history, persuaded to follow political causes with an uncritical and absolute loyalty." Sweeping generalizations like this prevent me from accepting *Kosovo: A Short History* as a balanced, serious, and mature study.

Space does not permit me to deal with all the issues raised by Malcolm and other contributors. I understand Melanie McDonagh's desire to defend *Kosovo: A Short History*, as Malcolm has dedicated it to her. But she should not make unsubstantiated references to the "nationalist tone of [my] review." I do not want to argue publicly with Melanie since she is a personal friend. But as far as my denying the killing of Muslims in Srebrenica is concerned, in this limited space I shall cite only one instance where I have referred to that tragic event—my interview in the Belgrade weekly *Argument* (April 13, 1998). To the journalist's question of whether America has double standards regarding human rights in different countries, my reply was, "If we were a nation of 150 million, if we were a nuclear power, of course we would have been forgiven many things, but this does not mean that we should not be reproached for what we did. It is a fact that mosques were destroyed, that Srebrenica, Vukovar, happened."

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Review Essay

Eye of the Tiger

What Jiang Zemin Tells Us About China

Seth Faison

Tiger on the Brink. BY BRUCE GILLEY. Berkeley: University of California Press, 1998, 339 pp. $29.95.

The Beijing massacre of June 1989 was never necessary to clear Tiananmen Square. Thanks to bitter infighting and a lack of clear purpose in the student movement, the million protesters who gathered in mid-May had already shrunk to a few thousand stragglers by the time of the shooting. They could easily have been dispersed by riot police or tear gas. But the massive show of military might was not aimed only at the students. It was also the conclusion of a hidden drama inside China's top ranks, where an intense power struggle had paralyzed the leadership for weeks (the main reason the protest was able to grow so large in the first place). Paramount leader Deng Xiaoping had only just succeeded in purging his anointed successor, Zhao Ziyang, and the show of force was meant to seal the gaping rift in the party. But the bloodshed only tore open new holes, since the needless brutality forced many party members to question the viability of their organization.

When leaders convened three weeks later to announce the new party chief, an unlikely candidate from Shanghai named Jiang Zemin, many assumed he had little chance of surviving such a tumultuous time. Jiang's initial speeches, lifeless and obviously scripted by committee, only reinforced this impression. As 1989 came to a close and communist governments in Europe fell like dominoes, China's leadership—suffering from a badly outdated ideology, endemic corruption, and a devastating loss of legitimacy after the massacre—seemed poised to follow.

Since 1989, however, both Jiang and his party have defied all expectations. Not only is Jiang still at the helm and stronger than ever, having won the added

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title of president in 1993, but the party has also remained firmly in control, without ever changing its intensely secretive and outdated mode of governing. Virtually no moves have been made to dilute its autocratic powers; party leaders still reach decisions in private, without more than a cursory pause to consider public opinion.

Remarkably, this ability to resist change has persisted through years of spectacular economic growth and deep social change. The transformation has been overwhelming: China at the close of the twentieth century barely resembles the country a decade earlier. Ordinary citizens have gained a measure of personal freedom—the ability to choose where they work and live, how they get information, and how they spend money—that was unimaginable in 1989.

Even more remarkable, perhaps, is the way that Jiang and his colleagues managed the seamless transition of power from the octogenarians who preceded them and presided over the massacre. Even before the death of Deng Xiaoping in 1997, a new generation of 60-somethings had already started giving, not following, orders. And they made the change without betraying any sign of inner turmoil.

Exactly how Jiang pulled off this impressive political feat remains largely secret. In fact, the decision-making methods of China's leaders remain unknown outside the walls of Zhongnanhai, the sprawling estate that is China's contemporary Forbidden City and sits next door to the original.

The Communist Party's Central Committee convenes twice a year, issuing pronouncements so turgid that they are nearly incomprehensible. Real decisions are made in the frequent and informal meetings of *xiao zu* (small groups) of China's top leaders and later given a seal of official approval at formal Politburo gatherings. The code of loyalty and secrecy kept by the leaders and their staffs is so strong that only a handful of people know how and when the real meetings are held. Outsiders may make much of the role of factions in the leadership, but can only guess at exactly who is in what clique. Chinese leaders—Jiang included—are so intent on preserving the appearance of consensus that their personal opinions, biases, and preferences remain well hidden.

Prime Minister Zhu Rongji, for instance, is widely regarded as a liberal due to his open and direct way of talking and his bold declarations. His predecessor, Li Peng, an inept and painfully cautious public speaker, is believed to be more conservative. But how much do the two men actually differ on specific issues, like central versus regional control or fiscal policy? Few know, since their public stances—in line with carefully worked-out party positions—are virtually identical.

The political gossip that seeps from the network of political cognoscenti in Beijing is so scarce that observers must inevitably rely on second-, third-, and fourth-hand accounts. By its very nature, such information is highly unreliable, containing perhaps a sliver of truth wrapped in layers of misinformation and misunderstanding.

Historians, political scientists, and journalists hungry for reliable information about Chinese politics have to rely on official publications, and on the semiofficial and nonofficial accounts that bubble up in Hong Kong. These are the same methods of tracking and analyzing China's political movements that outsiders have used for decades.

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It is in this Byzantine context that Bruce Gilley has written *Tiger on the Brink,* a biography of Jiang Zemin and a highly readable account of modern Chinese politics. Unfortunately, Gilley is sharply limited by the same lack of access as every other student of Zhongnanhai. A correspondent for *The Far Eastern Economic Review* who covered China out of Hong Kong, Gilley has done an admirable job of scouring Chinese-language publications for tidbits about Jiang's personal background. But hamstrung by lack of information, this story of Jiang's decade at the top of China's Communist Party only partly satisfies.

Tiger on the Brink is essentially a first-rate clip job. Gilley, facing the rigid limits of a culture of political secrecy, has had to rely overwhelmingly on secondary sources; as he relates in the preface, the closest he ever got to his subject was when he ran into the portly president in the men's room at the Great Hall of the People. And Jiang left the restroom before a surprised Gilley could think of a question to ask.

TIGER BALM

The big cat in the book's title apparently refers to China, not Jiang, for it is unlikely that anyone would ever mistake the genial and cautious leader portrayed by Gilley for such a ferocious creature. Gilley reinforces the assessment of Jiang as a politically slippery but tenacious survivor, less tiger than "Mr. Tiger Balm," a moniker he once gave himself, which Gilley uses to head a chapter.

Jiang Zemin emerges from this book as a skilled political tactician, who distinguished himself over nearly 50 years of Communist Party politics not as an intellectual or a fighter but by his ability to get along with superiors and inferiors alike, and by making use of an unsurpassed knack for currying favor with influential men.

It is tempting to assume that the world's most populous country will produce a leader with a character of similar magnitude. Yet Jiang tends to make a mild impression on those he meets. Observers hoping to find him a liberal have been disappointed; yet so have been those who expected a reactionary or an ogre. If Jiang has any strong political views or vision, they remain well hidden.

While Mao has been enshrined as the helmsman of the revolution, Deng is known as the architect of reform. Jiang, it is thought, would like to be remembered as the grand engineer, the man who kept the machine called China running. That may seem a modest goal compared with those of his predecessors. But Jiang is a modest man, with much, as Churchill might have said, to be modest about.

Jiang's leadership style—indecisive, replete with contradictions and mostly concerned about muddling through—reflects an uncertain time for Chinese Communists. While the nation executes a stunning shift from a planned to a market economy, Jiang and his colleagues continue to mouth meaningless shibboleths about the ongoing, dominant role of the socialist state. As corruption grows worse, Jiang announces one toothless, anti-graft crackdown after another.

Jiang likes to present himself as a highly educated idealist in touch with the common man. Gilley shows him instead as an accomplished, calculating performer who has mastered the political routines of Communist Party politics. Where Mao and Deng each possessed a charisma that grew out of deeply held political convictions, Jiang, as Gilley describes him, does not stand for anything. It is

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hard to imagine a man or woman on the streets of Beijing able to think of a single principle that Jiang represents—apart from holding on to power.

According to Gilley, Jiang once implied that he is "not a dictator" to a surprised group of American academics. Describing the checks placed on his personal power by the consensus-oriented philosophy of China's leadership, Jiang modestly insisted that his authority was limited: "By the time you leave this room," he told his American visitors, "not one of you will say to yourselves, 'That Jiang fellow is a real dictator.'"

As Gilley aptly observes, Jiang's true audience for this speech was probably members of the Politburo, whom he hoped to placate with assurances that they were equals. While consensus may sound like an enlightened leadership style to outsiders, in China it comes only after endless backbiting, meddling, and negotiating between top leaders and their staffs. Unfortunately, Gilley can only hint at such antics; the details remain beyond his reach, lost behind the *omerta* of Communist Party politics.

While the particulars may be obscure, the effect of Chinese "consensus" is evident at many meetings held with foreigners, in which officials seem unable to speak freely and are restricted to repeating Communist Party lines, all of which have presumably been worked out in advance. Gilley illustrates the point with a humorous anecdote: Jiang's first meeting with President Clinton in 1993 was so badly hemmed in by the official script that it reduced the meeting to farce. After shaking hands, Jiang took out a prepared statement criticizing the United States for butting into China's internal affairs over human rights and read it aloud, word for word. After 20 interminable minutes, an exasperated

AP/WIDE WORLD PHOTOS

Me, a dictator?: Jiang Zemin, Williamsburg, Virginia, 1997

Clinton interrupted to suggest that he and Jiang should talk to each other, not lecture. Jiang looked up, but did not stop reading. After another 10 minutes, Clinton joked aloud to one of his aides that he "should have brought my saxophone along to get some practice in."

Jiang's interpreter misinterpreted: "Mr. Clinton says he would like to play his saxophone for you."

"Jiang's eyes lit up with glee," Gilley writes. "'Really?' he asked, finally putting down his speech. 'That's great. I play the *erhu*. I should invite you to my home

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in Beijing and you could play your saxophone while I play my *erhu*!'"

One might be tempted to put the exchange down to linguistic or cultural misunderstanding. But the episode reveals how, even after four years at the helm, Jiang still did not feel he had the authority to speak for himself.

THE DICTATOR VANISHES

Not only is the character of Jiang the leader opaque; his life story, as Gilley tells it, is not particularly riveting, either. If there are any political skeletons moldering in his closet, Gilley was unable to find them. Jiang's early years in Jiangsu Province, not far from Shanghai, and his training as an engineer make an unremarkable story, as does his plodding rise through a series of middling assignments at the China Soap Factory in Shanghai, the First Machine-Building Ministry in Beijing, and the First Auto Works in Changchun.

Though well liked and competent, as a bureaucrat Jiang exhibited little that hinted at his bright future. His real skill always lay in finding and nurturing relationships with the political patrons who would later be key to his advance. In Beijing, for example, he befriended Wang Daohan, later mayor of Shanghai, who was to be instrumental in getting Jiang his post as electronics minister in 1983 and as mayor of Shanghai in 1985.

It was in Shanghai that Jiang could make full use of his talents, wooing several of China's elder leaders, including Li Xiannian, Chen Yun, and, most critically, Deng Xiaoping, who apparently liked the special care lavished on them by Jiang during their visits to his city.

And yet, apart from this routine history, the key questions about Jiang's career—how he rose from the ashes of Tiananmen as the Communist Party's leader, how he iced his main political rivals in 1992 and 1997, and how he eventually usurped Deng's mantle as China's supreme leader—remain, frustratingly, unanswered by Gilley. Were Chinese politics not so secretive, a biographer would never be excused for failing to illustrate Jiang's transformation from Deng's yes man to his successor. It was a subtle and painstaking process that probably involved a long series of tactical moves. Yet Gilley relates few of them, since he knows almost as little about them as we do.

The biggest challenge to Jiang's rule as Deng's successor came from the Yang brothers: former president Yang Shangkun and his half-brother, General Yang Baibing. In 1992, Jiang succeeded in outfoxing them both. But Gilley devotes a scant few paragraphs to this complex power play. Again, what is troubling here is not that the author downplays the importance of Jiang's victory over his rivals, but that, bereft as his account is of relevant information, it cannot explain how it all actually happened or what it means.

Gilley provides a more thorough analysis of Jiang's ouster of Chen Xitong, the Beijing party chief who was toppled in a 1995 scandal. That year, the suicide of Wang Baosen, a deputy mayor of Beijing, exposed a web of financial misdealings, secret mistresses, and secluded villas that eventually led to Chen's jailing. Here Gilley has more to work with, since China's official media published a big chunk of the case, full of lurid details. However, no one outside Beijing's inner sanctum knows why, in a nation where court verdicts are often handed down instantly, it took three years to bring Chen to trial. Gilley suggests that the lag reflected Jiang's maturing

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confidence, but this seems less likely than the possibility that it took Jiang that long to cope with the political ramifications of the purge of such a formidable rival.

Gilley may be obliged to rely heavily on secondhand accounts of Chinese politics, but his approach has major drawbacks. He mixes straightforward, largely reliable versions of events recounted by *Xinhua* (China's official news agency) with less-trustworthy material culled from gossipy Hong Kong magazines like *Zheng Ming*. One footnote tantalizingly refers to an unnamed official in Jiang's Beijing office, yet this mysterious person—potentially a font of valuable knowledge about Zhongnanhai—never fully materializes, vanishing no doubt behind the impenetrable veil of official Beijing secrecy.

Gilley's reliance on official and semi-official publications also means that he gives too much credence to the official interpretation of events. For example, he refers several times to Deng Xiaoping's "genuine wish" to retire, which was always the party line. Yet Deng's 15 years at China's tiller were marked by his tendency to pit his colleagues against each other, thereby ensuring that they would continue to consult the patriarch on all important decisions. Contrary to the official version, actual evidence suggests that Deng never intended to give this up, until advancing Parkinson's disease finally forced him to do so in 1994.

Similarly, describing the moment when Jiang was offered the post of party general secretary in 1989, Gilley takes at face value Jiang's modest protests that he was unqualified and unsure he wanted the job. It is hard to imagine anyone who succeeded in scratching his way to the top of Chinese politics actually hesitating when offered the prize. Playing hard-to-get is a common political ploy, and it apparently continues to sucker journalists all over the world.

Regarding Tiananmen, Gilley offers a fascinating, if incomplete, portrait of Jiang's role. Though still nominally party chief in Shanghai at the time of the massacre, Jiang had already been called to Beijing and pegged as the next head of the Communist Party. But as the fatal moment approached, in the first days of June 1989, Jiang found himself with no actual authority and no way to contact Deng Xiaoping or other leaders. Instead of acting to prevent the coming bloodshed, he sat in a guest house inside Zhongnanhai, telephoning friends and associates in Shanghai, unable even to tell them of his impending ascension. When the decision was made to send tanks rolling down the Avenue of Eternal Peace and to order the People's Liberation Army to open fire on unarmed citizens, Jiang was entirely out of the loop. Gilley's account rings true; rather than an ex post facto attempt to distance Jiang from the killings, it seems a genuine reflection of his impotence at the time.

As for what Jiang actually thought at the moment of the military action—a fateful decision that would haunt the Communist Party for years, if not decades—there is no official record. Nor does Gilley provide one. As with so much in Chinese politics, we can only guess.

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Review Essay

Never Say Never

Wishful Thinking on Democracy and War

Stephen M. Walt

Never at War: Why Democracies Will Not Fight One Another. BY SPENCER R. WEART. New Haven: Yale University Press, 1998, 432 pp. $35.00.

Since the mid-1980s, scholars of international politics have debated whether democratic states are strongly inclined to keep peace with one another. Apart from its academic interest, the "democratic peace" thesis has the greatest possible policy relevance. If democracies are in fact hardwired to treat each other benignly and if we can devise nonviolent means of encouraging democratic rule, we may have finally discovered a recipe for lasting peace.

The idea that democracies do not fight one another is undeniably attractive for those who happen to live in them. It would be wonderful if spreading our preferred form of government were also a reliable means of promoting peace, and one can hardly imagine a stronger justification for exporting republican ideals. Since war between the major democratic powers is extremely unlikely at present, the democratic peace is also intuitively plausible.

Yet the inherent attractiveness of this proposition is precisely why Americans should view it with some caution. Because the idea of a democratic peace is so flattering to our own values, we may embrace it even when the evidence is ambiguous and its long-term validity uncertain. Since many scholarly works have cast doubt on the hypothesis, a healthy sense of skepticism seems warranted.

GIVE PEACE A CHANCE?

The latest entrant into this burgeoning debate is Spencer R. Weart. Drawing a critical distinction between "democratic"

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and "oligarchic" republics, he argues in *Never at War* that well-established republics *of the same type* almost never fight one another. Although history offers up a number of near misses and potential exceptions, Weart concludes that none of them seriously damages his basic claim. For Weart, therefore, spreading democracy remains the most promising path to world peace.

Weart's central argument rests on two empirical propositions. First, truly democratic republics—which he defines as states where at least two-thirds of the citizens enjoy full political rights—have simply never fought one another. Second, so-called oligarchic republics—states where less than a third of adult males hold full political rights—have almost never fought one another. Wars do occur between democracies and oligarchies and between republics and dictatorships, but they do not occur between republics of the same type. This claim does not apply if a republic is brand new, but Weart argues that it is virtually 100 percent reliable once a republic has been consolidated over at least three years.

For Weart, the key to the "republican peace" lies in a broad conception of political culture. A state's political culture consists of "the beliefs that a group's members hold about how people ideally ought to deal with another, and their beliefs about how people actually do deal with one another in practice, when groups are in conflict." He suggests that tolerance and compromise are central to republican political culture and argues that political elites will apply lessons learned at home to foreign policy. As a result, republican diplomats will prefer negotiated settlements and eschew the use of force, especially when dealing with one another.

Most importantly, Weart believes that republican states "draw the crucial boundary around one's in-group to include everyone, even foreigners, who shares one's political culture." Political culture thus forms the critical dividing line between those who are part of the "in-group" and those outside it. Democratic republics regard other democracies as part of their own "in-group" and reject the use of force against them, but see oligarchies and dictatorships as illegitimate outsiders who do not merit the same restraint. Similarly, while oligarchic republics view democracies as a source of subversive ideas and readily use force against them, they refrain from attacking other oligarchies.

Weart bases these sweeping claims on a survey of the Greek and Italian city-state systems, the Swiss Confederation, the Hanseatic League, and more recent cases such as the American Civil War, the Anglo-Boer War, and World War I. Although his historical treatments are brief and his supporting documentation seems intended more to dazzle than persuade, the pattern of evidence is at least suggestive. Wars between similar types of republics appear to have been relatively rare, and Weart argues that virtually all the apparent exceptions occurred either because the antagonists were not really the same sort of republic or because the level of violence was trivial.

Weart lays out his case in clear, readable prose and livens his narrative with entertaining anecdotes. His distinction between democratic and oligarchic republics and his emphasis on their being "well-established" is a useful qualification to the democratic-

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peace hypothesis, helping to account for several historical anomalies. Weart also acknowledges that the spread of democratic principles is not an unalloyed good—both because democracies are prone to using force to export their ideals and because autocrats' fear of democratic rule is itself a potent source of insecurity and conflict. For these reasons, *Never at War* is in many ways the most accessible and comprehensive brief for the democratic peace available. But by limiting his discussion primarily to evidence that supports the democratic-peace hypothesis, Weart tells only one side of the story.

REASONABLE DOUBTS

Critics of the democratic-peace hypothesis make two main counterarguments. Their first line of attack holds that the apparent pacifism between democracies may be a statistical artifact: because democracies have been relatively rare throughout history, the absence of wars between them may be due largely to chance. Evidence for a democratic peace also depends on the time periods one examines and on how one interprets borderline cases like the War of 1812 or the American Civil War. Critics also note that strong statistical support for the proposition is limited to the period after World War II, when both the U.S.-led alliance system and the Soviet threat to Western Europe's democracies discouraged conflict between republics.

A second challenge focuses on the causal logic of the theory itself. Democratic-peace proponents often attribute the absence of war between republics to a sense of tolerance and shared values that makes using force against fellow republics illegitimate. (As noted above, Weart's version of this argument emphasizes the tendency for republics to see similar states as part of their own "in-group.") If this theory is true, however, there should be concrete historical evidence showing that democratic leaders eschewed violence against each other primarily for this reason. But critics like Christopher Layne have shown that when democratic states have come close to war, they have held back for reasons that had more to do with strategic interests than shared political culture. These cases suggest that even if democracies have tended not to fight each other in the past, it is not because they were democracies.

Instead of meeting these challenges head-on, Weart assembles his own body of supporting evidence and devises his own explanation for the apparent lack of war between republics. Although his arguments should not be dismissed lightly, *Never at War* illustrates many of the limitations that have marred this debate since its inception.

To begin with, Weart's treatment of historical materials is hardly evenhanded. He is quick to embrace evidence that supports his argument and even quicker to reject evidence that challenges it. Thus, he dismisses in a single footnote the claim that the democratic peace may be a statistical artifact and treats the work of other skeptics with equal disdain. He also excludes the various wars between the Roman republic and its neighbors, including the brutal Punic Wars with Carthage, on the grounds that "no primary sources nor reliable secondary sources survive." Yet he does not hesitate to use other ancient sources that buttress his claim, such as Thucydides and Xenophon, even though they are by no means perfectly reliable. Modern classicists generally

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agree that both Carthage and Rome were oligarchic republics, which suggests that excluding them was a largely arbitrary judgment that just happened to leave Weart's central claim intact.

Second, Weart's historical accounts focus almost entirely on the role of political culture and pay little attention to more plausible alternative explanations. His cases show that political culture might account for the absence of war between similar republics, but he rarely asks whether other factors were more important—either in keeping the peace between similar republics or in causing wars between states whose domestic regimes were different. As presented, his case studies create the impression that political culture is the key to explaining war and peace, but Weart offers scant direct evidence for this.

Weart's interpretation of Anglo-American relations illustrates this problem nicely. His account of the War of 1812 emphasizes England's "arrogant" and "imperious" maritime policies (including its impressment of U.S. seamen and embargo on trade with France) and highlights the differences in English and American diplomatic styles. This interpretation implies that war occurred because England was an aristocratic republic and the United States a democracy, but it overlooks the fact that England's maritime policies were a direct outgrowth of its protracted war with Napoleonic France. What Weart portrays as a clash of cultures was at bottom a clash of national interests. Similarly, Weart attributes the peaceful resolution of the Venezuelan crisis of 1896 to the growing similarities between the two republics, especially the shared Anglo-American preference for negotiation and compromise. In fact, U.S. statesmen were interested not in compromise but in reaffirming U.S. primacy in the western hemisphere. War was averted not because both sides were republics, but because England lacked the strength to oppose the United States in its own backyard and England's leaders knew it. Weart also sees the subsequent rapprochement between England and the United States as the result of their shared democratic character, but he fails to mention that England was mending fences with imperial Japan and czarist Russia during the same period. A similar political culture may have facilitated the Anglo-American rapprochement, but strategic calculations—especially the rise of Germany—were much more important.

Third, Weart's analysis rests on the same sort of arbitrary coding procedures that marred earlier democratic-peace research, and he relies on a number of familiar loopholes whenever a case does not fit his thesis. The most obvious escape hatch is the admission that republics of the same type may fight one another if either side *believes* that its opponent is not the "right" kind of republic. Thus, Weart explains away the Athenian expedition to Syracuse in 415 B.C. by saying that the republican regime in Syracuse "was probably not perceived by the Athenians as a full democracy" (even though it was actually nearly as democratic as Athens) and accounts for France's 1923 invasion of the Ruhr by noting that past clashes had convinced the French that the Germans were "an innately authoritarian people" (no matter what the Weimar Constitution said). The Anglo-Boer War is similarly excluded on the grounds that the Boers' treatment of the native population allowed the English to portray their opponents as less than fully democratic. But England's

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leaders were equally willing to deny full political rights to any imperial subjects they regarded as inferior, which suggests that the political cultures of the antagonists were not so very different after all.

These fudges mean that the republican peace depends less on shared political culture than on each side's *perception* of what the other state is like. If either side has even flimsy grounds for believing that the other does not fully share its political values or has other reasons to fight and simply wants to portray the other side as somehow fundamentally different, Weart's recipe for peace loses most of its power.

A WORLD OF DEMOCRACIES

Weart does recognize that shared political culture can be an unreliable barrier to war when serious conflicts of interest arise because states will simply use other criteria to exclude rivals from their "in-group." Thus, he acknowledges that religious differences drove the Swiss republics of Lucerne and Bern to war in the seventeenth century. He further admits that republics have had little difficulty justifying imperial expansion against less-developed but essentially democratic societies simply by declaring the victims "ignorant savages" and placing them outside the "civilized" in-group. Similarly, democracies like the United States overthrew freely elected governments in Guatemala and Chile because American suspicion that they might "go communist" was enough to exclude them from the circle of "acceptable" democracies. Weart, however, does not seem to realize how damning these admissions are to his argument and instead relies on ad hoc rationalizations to paper over the holes.

This brings us to a final gap in Weart's case. Even if its historical judgments are accurate, *Never at War* cannot tell us how republics would behave in a world in which they were the only type of government. Such a world has never existed, of course, and we simply do not know if the historical affinity among democracies would persist without authoritarian states. The struggle between authoritarian and democratic ideals has been a critical fault line for the past two millennia, and it is easy to understand why like-minded regimes have been inclined to cooperate when confronted by states whose ideals posed a direct threat to their own security. But were this basic distinction to evaporate, cleavages between democracies would probably become more salient. One can easily imagine republican states making invidious distinctions among themselves as conflicts of interest grew more acute, particularly if they no longer needed to join forces against monarchs and dictators. At the height of the Cold War, after all, Americans tended to see Japan as a liberal democracy molded largely in their own image. But as soon as Americans began to fear that Japan was overtaking them economically, they began to "discover" that Japanese politics were less liberal than they had previously thought. This episode suggests that if the United States were to face a democracy of roughly equal capabilities, both sides would find ways to place the other outside its own democratic "in-group." Republics may have tended to band together in the past, but a world composed solely of them might employ different criteria to identify friends and foes. Not only is Weart's interpretation of history problematic, its relevance for the future may be quite limited.

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Despite its shortcomings, *Never at War* is a useful contribution to this important debate. Readers who want to make up their own minds will want to compare it with Miriam Elman's recent *Paths to Peace* and Joanne Gowa's forthcoming *Ballots and Bullets*. Democracies may or may not fight each other, but these works suggest that the scholarly struggle is far from over.

Some Americans find these academic debates frustrating. But ask yourself which you would prefer: a world where some great powers were democratic and others were not but where the United States was clearly number one, or a world where all the major powers were democracies but the United States was number three, four, or perhaps even lower. Reasonable people can disagree about which world would be preferable, but how you answer this question will tell you which side of the democratic-peace debate you are on.

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Review Essay

The Inflation Obsession

Flying in the Face of the Facts

James K. Galbraith

Inflation Targeting: Lessons from the International Experience. BY BEN S. BERNANKE, THOMAS LAUBACH, FREDERIC S. MISHKIN, AND ADAM S. POSEN. Princeton: Princeton University Press, 1999, 365 pp. $24.95.

Should a central bank address a broad agenda of economic growth, price stability, and full employment? Or should it focus single-mindedly on controlling inflation? Last autumn this debate mounted in Europe, where calls from social democratic governments for lower interest rates grew louder as the continent prepared for the European Central Bank. In the United States, where federal law stipulates full employment as a policy goal, Republican proposals to require that the Federal Reserve focus only on inflation surface regularly in Congress.

Ben S. Bernanke and his colleagues, each a veteran of the Federal Reserve Bank of New York research staff, make the case for inflation targeting in a book that has the intellectual rigidity of a manifesto. But their tone, worried rather than strident, will seem familiar to followers of the recurrent debates over competitiveness, which cater to national vanity in similar terms. In the authors' eyes, the United States is "lagging behind other industrial countries in considering monetary policy frameworks and institutions that might help ensure good economic performance in the long term."

Since the early 1980s, a handful of countries have formally declared that low and stable inflation should be the overriding objective of monetary policy. These countries, which include New Zealand, Canada, Great Britain, and

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Sweden, are the main focus of the book. After reviewing these cases, *Inflation Targeting* uses them as examples to argue that inflation targeting would also enhance American "economic performance in the long term." But the authors have a curious interpretation of this phrase. They do not use it to refer to rising living standards, full employment, declining inequality in pay, or similar recent improvements in American material well-being. Rather, they explicitly deny that monetary policy should be praised for these blessings, since the gains of an expansionary monetary policy are inherently temporary and unsustainable. Economists should therefore not count such gifts among the benefits of a sensible long-term monetary policy.

In other words, America's present affair with full employment is sure to end badly, with an acceleration of inflation leading finally to recession and unemployment. In contrast, the right strategy to fight inflation is to keep unemployment high enough all the time at its "natural" rate, or as low as joblessness can go without sparking inflation. A central bank distracted by the pursuit of economic growth and full employment is to be condemned, while a central bank that achieves price stability at the cost of chronic high unemployment—as in Germany—has done its duty. The European Central Bank, charter-bound to price stability whatever the cost, represents the pinnacle achievement for this school of thought. Meanwhile, the Federal Reserve—unmentioned in the U.S. Constitution, obliged to report on unemployment—must seem emasculated in comparison.

OFF TARGET?

The case for inflation targeting, as Bernanke and his colleagues present it, rests on a theory—the natural rate of unemployment mentioned above—that links monetary policy exclusively to inflation control and denies central banks any important role in determining economic growth or employment. As disciples of the natural-rate doctrine, our authors favor inflation targeting not simply as the better strategy, but as the only strategy consistent with sound economics. But are these principles correct?

The authors do not bother to argue their case, but merely tell us that these truths were presented by Milton Friedman in 1967, refined by Robert Lucas in 1976, and consequently were accepted by most economists. Indeed, the theme of consensus crops up time and again. We read that "most macroeconomists agree" the inflation rate is the only variable that monetary policy can affect in the long run; that there is "by now something of a consensus that even moderate rates of inflation are harmful"; and that there "is a growing belief among economists and central bankers" that low inflation is good for both efficiency and growth. For the authors, the case is closed and consensus has settled the issue.

In fact, no such consensus exists or has ever existed. To take just a few examples, Robert Eisner, a former president of the American Economics Association and a renowned macroeconomist, has never accepted the Friedman/Lucas view. Neither has James Tobin, Paul Samuelson, Robert Solow, or the late William Vickrey—all Nobel laureates. Neither did Ray Fair at Yale, James Medoff at Harvard, or William Dickens at the Brookings Institution.

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Bernanke and his colleagues maintain the illusion of consensus by ignoring the actual debate, which has grown more intense, not less, in recent years.

There are two basic reasons why this controversy persists. First, although the Friedman/Lucas doctrine does enjoy some academic dominance, it rests on a peculiar philosophical position that regards the future as a sort of lottery drawing. For example, it would view the Asian financial crisis not as a policy failure but merely an unfortunate, random outcome. Not surprisingly, many thoughtful economists reject this approach. Second, the real world has been openly contradicting the theory for years. Three years ago, every advocate of the natural-rate doctrine firmly held that unemployment below six percent would spark inflation. Unemployment has since fallen, but contrary to theory it not only has remained below the supposed natural rate but has failed to touch off inflation. The Friedman/Lucas arguments have received a clear empirical rebuke.

Instead, deflation, not inflation, reared its head in much of the world last year as the financial crisis spun out of control. But adherents of the natural-rate theory were never able to see this threat. They were still arguing for an anti-inflation policy when the Asian crisis broke in 1997, and they were still clinging to it in the summer of 1998 when U.S. markets began to crack under the strain. As the case for urgent action grew evident to everyone else, including Federal Reserve Chairman Alan Greenspan, the diehard natural raters inside the Federal Reserve obstructed forceful action. The concrete result: interest rate cuts were at first too cautious to impress the financial markets and affect the economy, and so the crisis deepened.

Can a central bank pursue inflation targeting without adhering to the natural-rate doctrine? Although Bernanke and his coauthors make no effort to separate the two, it is possible to base inflation forecasts on something other than the unemployment rate. An inflation targeter could very well have argued at the Federal Reserve last August that the Asian crisis had eliminated inflation risk and that large cuts in interest rates were essential to ward off the threat of deflation.

This supply-side view may be an improvement over an employment-driven inflation obsession, but it is still less sensible than current Federal Reserve practice. Economists opposed to rate cuts could have countered, correctly, that deflation outside the United States will not depress prices inside the country because most wages and prices are unlikely to fall that quickly. However, the great danger of the Asian crisis is not falling price levels but rising unemployment, recession, and income inequality. A doctrine of inflation targeting, even if not tied to the natural-rate dogma, would have weakened the argument for the interest rate cuts needed to stabilize employment and output, not to mention the financial markets and the banking system.

A CASE FOR CUTS

In any case, events have already overtaken our authors. The only potentially effective response to the global slump has been for the Federal Reserve to sharply cut U.S. interest rates and ensure a depreciation of the dollar. These measures help slow the flight of capital to the United States, return confidence to Asian markets, and restore

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the balance sheets of otherwise insolvent Japanese banks. Inflation targeting would have delegitimized these policy goals. The argument for having our central bank exclusively address inflation not only ignores the reality of the crisis but assaults the urgent present priorities of the Federal Reserve itself.

What of the claim that inflation-targeting countries have enjoyed superior economic performance, even if employment and growth are omitted and inflation alone is considered? A fair evaluation of this claim would require a comparative perspective, which the authors do not provide. We are left then to review the historical record and ask, What kind of evidence do Bernanke and his colleagues actually present that inflation targeting succeeded?

This part of *Inflation Targeting* merits careful reading, for much of the story in detail is interesting and competently told. But what is striking is that even the authors admit that inflation targeting in practice has actually done little to fight inflation. In the case of New Zealand, they write, "the decision to announce inflation targets occurred after most of the disinflation . . . had already taken place." The same is true for Canada, and Britain also embraced inflation targets when "it was most likely to meet them." Sweden "was in deep recession" with inflation "down to a historically low rate of three percent per year" when its central bank adopted inflation targets.

In other words, the countries in question never introduced inflation targets when inflation posed a serious threat, nor did adopting targets reduce the cost of any ongoing inflation battle. In all cases, the declaration of war came after the fighting was over. So why did the central bankers do it? Bernanke and his colleagues are quite honest about the reasons. Inflation targeting in all cases coincided with high unemployment, and its main effect was to excuse central bankers from addressing this crisis. Second, inflation targeting could substitute for the messy practice of money supply targeting, an earlier misguided enthusiasm that Britain had once embraced and that Germany used until the launch of the euro. Third, and in sharp contradiction with the first motive, inflation targeting provided in a few cases some camouflage for central bankers who were actually planning to ease monetary policy in order to fight unemployment. They said one thing to placate conservatives and did another to accommodate the political and economic realities of the hour.

Central bankers, like generals, are often accused of refighting the last war. But as the motives above suggest, this case is somewhat different. First, inflation targeting commits itself in principle to fight the last war—the war against inflation—as a way to avoid addressing the present threat—unemployment. Second, inflation targeting allows central bankers to change tactics of the last war even though it has already ended. And third, it permits central bankers to assert that the inflation war is still raging, even when they are really planning to fight unemployment. These mechanisms are useful from a narrow public relations standpoint, but it is hard to see how they actually relate to economic performance, including the pursuit of low inflation.

What should the United States do? The Federal Reserve is an independent executive agency under the authority of Congress. It therefore comes under the

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Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978, which rewrote U.S. economic policy goals to specify that they include, among many things, full employment, balanced growth, and reasonable price stability. In particular, the act set interim targets of four percent unemployment and three percent inflation—goals that are now, within a few tenths of a percentage point, achieved.

The authors of *Inflation Targeting* do not discuss the Humphrey-Hawkins Act. If they had the chance, however, they would likely rewrite it and order the Federal Reserve to fight inflation alone. They do not say what would become of the Humphrey-Hawkins goal of "full employment." In principle, perhaps some other agency could address the task of sustaining full employment through a jobs program funded by tax increases or deficit spending. But it is unlikely that Bernanke and his colleagues have this in mind. One suspects instead that what they really want is to abandon full employment as a formal objective of American policy.

It is ironic that this book appears just as Alan Greenspan, Alice Rivlin, and the rest of the Federal Reserve leadership have demonstrated how spurious the natural-rate doctrine is by proving that full employment, balanced growth, and reasonable price stability are not mutually exclusive. This is a remarkable accomplishment, and it is due in part to the willingness of Chairman Greenspan to overrule the adherents of the Friedman/Lucas view and experiment cautiously with continuing reductions in unemployment. In this way, Greenspan and company have affirmed the good sense of the Humphrey-Hawkins law. The fact that the unfolding crisis of go-go globalization now threatens this accomplishment does not diminish its validity or its importance. And in their attempt to stabilize the financial markets and the world economy as the deflationary crisis of 1998 unfolded, the Federal Reserve's leadership demonstrated far more sophistication, flexibility, and common sense than Bernanke, Laubach, Mishkin, and Posen show in this evasive, unpersuasive book.

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Review Essay

The Global Prosecutors

Hunting War Criminals in the Name of Utopia

John R. Bolton

War Crimes: Brutality, Genocide, Terror and the Struggle for Justice. BY ARYEH NEIER. New York: Times Books, 1998, 288 pp. $25.00.

Between Vengeance and Forgiveness: Facing History After Genocide and Mass Violence. BY MARTHA MINOW. Boston: Beacon Press, 1998, 192 pp. $24.00.

Allegations of war crimes, genocide, and crimes against humanity have received considerable press coverage in recent years—more than at any time since Nuremberg. Yet this is not because the incidence of such barbarities has increased. The crimes are simply brought to our attention more rapidly these days, by the media and by what Aryeh Neier calls the "international human rights movement," which has an ambitious agenda for handling such crimes.

It is this agenda that emerges most clearly from Neier's *War Crimes*, and not the now-familiar narrative of atrocities he presents to support it. Neier's real objective is to assert the primacy of "international law" over the nation-state, and of criminal prosecution over alternative methods of dealing with the worst offenders. For a sense of how Neier's model of international law would work, look to the recent arrest in London of General Augusto Pinochet. Describing the matter to *The New York Times*, Professor Diane F. Orentlicher—one of Neier's cohorts—said triumphantly that "crimes against humanity transcend the concerns of the countries where the abuses are committed. In theory, there should be no safe haven for world-class criminals."

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This language would be right at home in Neier's new book. It encapsulates the euphoric impracticality of his approach.

SLIGHT OF HAND

In building his case for robust international law, Neier's first step is to insist on calling it "binding international law"—the extra adjective obviously intended to carry weight. He uses "binding" to redefine what is generally called "customary international law," describing it (inaccurately) as rules that "bind a government regardless of whether it has formally ratified a treaty accepting their obligations." This notion, that states and individuals can be bound by an "international law" that they may never have consented to, has surface appeal because it sounds familiar to citizens used to living under the rule of law domestically. By exporting the terminology of national legal systems into international affairs, Neier implies that there is strong similarity between the two realms. From this it follows that the legal and political principles and institutions of domestic systems can also operate between sovereign states.

Neier barely argues this point, because he believes it to be either self-evident or universally accepted. Both assumptions are incorrect. To claim that the concepts and structures of international law mirror domestic law is simply wrong. In assuming they do, Neier's argument is detached from real international relations and actually dangerous.

In reality, international law, especially customary international law, meets none of the tests we normally impose on "law." In common-sense terms, law is understood as a system of rules that regulate relations among individuals and associations—and between them and the government (the source of coercive authority that can enforce compliance with the rules). In the modern era, that government is considered legitimate to the extent that it stems from and represents the popular will.

To have real law in a free society, there must be a framework (a constitution) that defines the government's authority, thereby limiting it and preventing the exercise of arbitrary power. As C. H. McIlwain wrote, "all constitutional government is by definition limited government." And there must also be political accountability, ensured through popular controls on the creation, interpretation, and enforcement of laws.

In "international law," neither of these requirements is met. There is no attempt to link international authority to the political consent of the global population, to find true democratic legitimization. Lacking a constitution, international law has no definitive dispute-resolution mechanism (the role played domestically by courts), or any agreed-upon enforcement, execution, or compliance mechanisms (short of warfare). Governments often follow only those "laws" that suit their interests and ignore those that do not, with relative impunity. None of the international organizations that exist today could pass for accountable law-giving, law-interpreting, or law-enforcing bodies. Even Neier implicitly concedes this point. In his chapter on the United Nations, for example, the most praise he can muster is that "it is not the utter failure its harshest critics contend."

Of course, none of this means that nations can abjure or ignore treaties, or even customary international law, at will. But while treaties may well be politically

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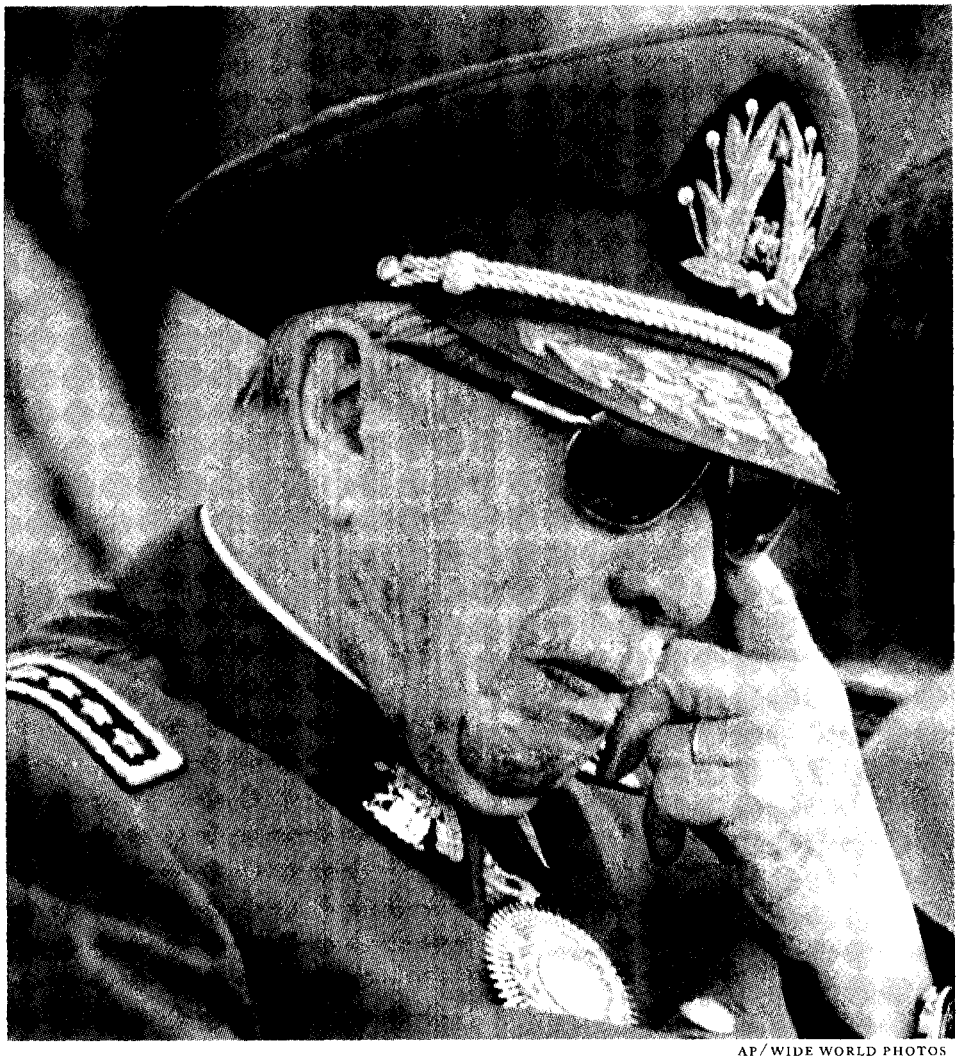

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Don't cry for me, Santiago:
General Augusto Pinochet at a military parade, Chile, 1997

or even morally binding, they are not legally obligatory. They are just not "law" as we apprehend the term. And what happens to countries when they do not adhere to international law on some matter? Usually nothing. Why, then, do we continue to talk about international "law"? Because the word has a strong emotive appeal. As one British commentator put it in 1945, replacing "international law" with "international custom" meant that "these international rules may lose some of the respect in which they are now held. . . . It will follow from the fact that the word 'law' is nowadays more highly charged with a certain kind of emotion (namely the emotion of unquestioning obedience) than the word 'custom.'"

Emptying international treaties and custom of their "legal" authority does not, of course, preclude nation-states from prosecuting and convicting perpetrators of crimes against humanity—domestically. Indeed, a national approach might be

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preferable; effective catharsis best occurs when a population independently comes to grips with its past and administers justice on its own. But that is not what Neier wants. He wants international rules that bind nation-states because he does not trust states to do the right thing, and he wants the brand-new International Criminal Court to ride herd on inadequate national tribunals. In short, he wants international law, not national law, to reign supreme.

MORAL RIGOR MORTIS?

Following his bid for "binding international law," Neier makes a second, fundamental mistake: he insists that those responsible for war crimes, genocide, and crimes against humanity should be tried and punished without exception and without ever considering other alternatives. For Neier and his ilk, there should be no plea bargains, no pardons, and no amnesties. The erstwhile national director of the ACLU has become a zealous Global Chief Prosecutor.

But Neier, in his utopian zeal, misses a crucial distinction. In Western legal systems, the overwhelming bulk of criminal offenses have no political content. They are not "crimes against the state"; they reflect no clash between larger ideological, religious, ethnic, or economic interests; and they are not regionally concentrated. Today, even the most radical class-based jurisprudence does not justify criminal behavior as a legitimate protest against society's ruling structures. Accordingly, there is generally no reason for national judicial systems to be concerned with the social implications of particular crimes. Citizens and jurists need consider the severity of the sentence, the possibility of pardon or forgiveness, and a host of other variables only in the context of the specific violation.

Crimes against humanity, war crimes, and genocide, by contrast, are highly context-specific. They are acts committed either during war (between or within nations) or by repressive regimes. When these crimes are finally addressed, it is usually during enormous social and political upheaval: the negotiation of a peace treaty, restoration of legitimate political rule, or some similar milestone. In such circumstances, there are typically other priorities to be considered than just punishing those who committed crimes during the preceding turbulence.

These issues raise questions that are as much moral or political as they are legal in nature: Once guilt is established, what are the appropriate penalties? Are reparations or economic compensation justified? Should there be a time limit on prosecutions? Amnesty? Other questions are even more clearly political: How will the warring parties live with each other in the future? How will the underlying causes of the previous inhumanity be expunged (through programs such as de-Nazification, for example, or more recent Eastern European lustration efforts)? Can the truth of what actually happened ever be established (through truth commissions, for example) so that succeeding generations may avoid making the same mistakes?

Neier ignores these dilemmas; he is not satisfied by anything less than prosecution and punishment, as the title of one chapter, "The Trouble with Amnesty," makes clear. He endorses Francis Bacon's argument that the king's power to pardon should not extend to offenses that are *malum in se* (evil in themselves)—whatever the

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circumstances. Neier sees amnesties demanded by outgoing military governments as a form of terrorism and argues, "standing up to terrorism is painful. It is the same with standing up to demands for an amnesty, only more so." Neier's strategy of "one goal, one process, one result" may be appealing on the surface. But his assessment is just too simplistic. Both civil-libertarian leftists and law-and-order conservatives should agree that his approach ignores too many of the complexities and trade-offs that are essential in national and international affairs.

However it is ultimately resolved, the recent case of General Pinochet illustrates the flaws in Neier's rigid approach. The request by Spanish judge Baltazar Garzón to extradite the general from the United Kingdom provoked hosannas from the human rights cognoscenti. Had extradition been sought solely for the alleged murder of Spanish nationals, British courts could have directly considered Pinochet's criminal liability, as with any other accused murderer, and decided accordingly. In such cases, extradition may be appropriate—as when the United States sought to extradite and arrest the Libyans accused of killing Americans in the bombing of Pan Am flight 103.

But in this case, the Spanish magistrate pursued Pinochet for genocide and other crimes against humanity committed against Spaniards and non-Spaniards alike, on a theory that such crimes are amenable to "universal jurisdiction." This meant that Spain was not limited to avenging its own citizens. Yet one wonders why a Spanish judge has a greater stake in prosecuting such crimes than do the Chileans themselves. Did he consider the hard compromises already made by Chilean democrats to restore civilian rule? Most importantly, will actions such as his facilitate the removal of other authoritarian regimes, or simply entrench them further? Only those who are utterly certain of their own moral judgment could have dismissed these complexities. Neier, of course, enjoys such blithe certainty; as he writes, "amnesties are invalid when they conflict with international treaties that obligate states to prosecute and punish."

It is at this point in the debate that Minow's *Between Vengeance and Forgiveness* has its place. Minow reviews the alternatives to adjudication and punishment. These include South Africa's Truth and Reconciliation Commission, various forms of amnesty (as granted in former communist countries and Latin America), and reparations. Minow explores their pros and cons, and finds both—for there are indeed real advantages and problems with these alternatives to prosecution, a point Neier refuses to recognize. After all, the Pinochet affair reinforces the fact that providing realistic exit strategies to dictators (including insulation from prosecution) can make the return to democracy more likely, not less.

Yet Minow's work also shows major flaws. Her approach has more to do with the emotional and psychological responses of victims and those close to them than with larger geopolitical or legal questions. It is not, therefore, a real counterpoint to Neier's more conventional work. Minow's emotionalism and therapeutic jargon often leave one intellectually at sea, though beneath them she does identify some hard political realities.

Minow correctly notes that "litigation is not an ideal form of social action," quoting Voltaire: "'I was never ruined but twice:

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once when I lost a law suit, and once when I won one.'" She rejects many of Neier's broad claims for the prosecutorial option because "exaggerated assertions are bound to yield critical and even hostile disappointment," and because of the inevitable problems war-crimes trials encounter, which she describes as retroactivity, politicization and selectivity. In particular, Minow expressly rejects Secretary of State Madeleine Albright's claim that, thanks to developments in human rights law since Nuremberg, retroactivity (criminalizing an act after it is committed) is no longer a problem. Minow explains that "the claim of international consensus does not by itself create or eliminate remaining ex post facto concerns. No clear source shows that international law includes the full range of criminal and penal authority enjoyed by nation-states." To pretend that it does is dangerous and dishonest.

After considering alternatives to prosecution, Minow expresses no preference among them, other than the vague notion that "perhaps the challenge is to meet a basic need for balance and wholeness." However frustrating it seems not to have a concrete answer to Neier's approach, Minow's conclusion is correct. Neither the "one size fits all" prosecutorial strategy, nor a uniform preference for amnesty or some non-juridical alternative in every case, would be justifiable. Circumstances differ, and circumstances matter. Atrocities, whether committed abroad or at home, are almost by definition highly unusual. For precisely that reason, their resolutions should be too.

CONSTITUTIONAL CONFLICT

A particularly important point for Americans, of course, is how this debate applies to us. Proponents of international governance and justice, including many human rights activists like Neier, see the United States as the chief threat to the "new world order" they are trying to create. Neier warns darkly that "suspicion of international law has remained a potent political force" in America. Although war criminals are, in a public relations sense, easier targets for advocates of binding international law, the United States is their ultimate objective. Individual villains who commit heinous crimes may kill individuals or entire populations, but only the United States can neutralize or destroy the "new world order" itself.

Politically, this analysis is absolutely correct. If the American citadel can be breached, advocates of binding international law will be well on the way toward the ultimate elimination of Treaty of Westphalia–style nation-states. It is thus important to understand the root of American intransigence: namely, the fact that the United States and its Constitution would have to change fundamentally and irrevocably before binding international law becomes possible. This constitutional issue is not merely a narrow, technical point of law, certainly not for the United States.

The idea that treaties themselves can trump the U.S. Constitution—and thereby legally bind the United States—comes from a common misreading of the Constitution's Supremacy Clause. Article VI reads, "this Constitution, and the laws of the United States which shall be made in Pursuance thereof, and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land." Although the Supreme Court contributed to the confusion surrounding this clause,

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Justice Hugo Black later explained unambiguously that "this Court has regularly and uniformly recognized the supremacy of the Constitution over a treaty," adding that an Act of Congress "is on a full parity with a treaty."

The Court has clearly distinguished between the effect of treaties in the international arena, on the one hand, and within the United States, on the other. Internationally,

> a treaty is primarily a compact between independent Nations. It depends for the enforcement of its provisions on the interest and honor of the governments which are parties to it. If these fail, its infraction becomes the subject of international negotiations and reclamations. . . which may in the end be enforced by actual war.

With respect to a treaty's domestic impact, however, the Court explained that

> a treaty may also contain provisions which confer certain rights upon the citizens or subjects of one of the Nations residing in the territorial limits of the other, which partake of the nature of [national] laws, and which are capable of enforcement as between private parties in the courts of the country.

In such circumstances, "[a] treaty, then, is a law of the land as an Act of Congress is, whenever its provisions prescribe a rule by which the rights of the private citizen or subject may be determined." By contrast, in the international arena, treaties are mere political agreements, disputes about which require political resolution—not legal adjudication.

The unique centrality and supremacy of the Constitution is reflected in the very structure of the American government. Democracies with parliamentary systems simply do not comprehend the concept of powers separated among equal branches of government. For them, when the prime minister speaks, so does the legislature. America rejected this form of government, however, before most countries adopted it. The Constitution allows any Congress to amend, by law, an earlier Act of Congress—including treaties—and to unilaterally free the United States of any international obligation. The Supreme Court has made this point explicitly:

> A treaty . . . is in its nature a contract between nations, and is often merely promissory in its character, requiring legislation to carry its stipulations into effect. Such legislation will be open to future repeal or amendment.

The Court directly faced the consequences of breaching a treaty and said, "whilst it would always be a matter of the utmost gravity and delicacy to refuse to execute a treaty, the power to do so was prerogative, of which no nation could be deprived without deeply affecting its independence."

If treaties cannot legally bind the United States, it follows that "customary international law"—whatever that is—cannot have any binding legal effect either. The idea that what is customary can bind the world's nations seems to assume that the Global Constitution contains a Global Supremacy Clause making customary international law trump domestic law. But of course, such a Global Constitution has yet to be written; nor is there a global government up to the task.

International law proponents dismiss these conflicts with U.S. constitutionalism as peculiarities of one country's domestic law. They argue that America's internal legal constraints are irrelevant internationally and cannot protect it from the

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charge of violating international law. But this is a circular argument, which simply brings us back to the question of whether international law trumps the Constitution, or vice versa—without answering it. And this approach should serve as a clear warning. One must be wary of any theory of international law so quick to declare the world's strongest and freest representative democracy to be in constant, flagrant violation, simply for adhering to its own constitution. One should be especially concerned when that constitution happens to be used as a model by liberal democracies around the world. Neier notwithstanding, the clash between America's constitutional structure and calls for the decline of the nation-state will not be resolved in the near term. But no one should ignore the coming battle, waged indirectly through books such as these.

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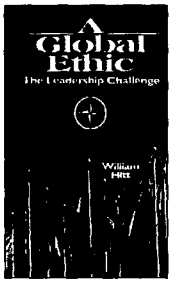

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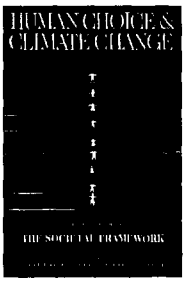

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Letters to the Editor

James Hecht on Russia, Akiko Yamanaka on U.S.-Japan relations

RUSSIAN ROULETTE

To the Editor:

Clifford G. Gaddy and Barry W. Ickes present an accurate picture and thoughtful analysis but offer unwise advice to the West ("Russia's Virtual Economy," September/October 1998).

The authors believe that the West can either continue lending money to keep Russia stable or, as they prefer, eliminate lending to force the drastic necessary changes. But Gaddy and Ickes overlook other choices. The West should use microeconomic aid to help Russia convert from its virtual economy to a value-added one.

Consider one example. One reason Russian manufacturing turns out products worth less than their inputs is that energy is squandered. Russian engineers do not know how to save energy because Russian energy supplies have until recently been sold at a fraction of world prices. If Russian engineers were trained in energy management and a loan program was carefully structured to encourage energy conservation, Russia could increase oil and gas exports by billions of dollars a year.

Making such improvements in the Russian economy will not be easy. If the United States is to give effective assistance, it must do so without the corporate welfare and cronyism that has characterized most U.S. foreign aid in the past. The United States has a big incentive to straighten out its foreign aid program. It should not take Gaddy and Ickes' risky course of action.

JAMES L. HECHT

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LOOK BEFORE YOU LEAP

To the Editor:

Morihiro Hosokawa calls for radically restructuring the U.S.-Japan alliance ("Are U.S. Troops in Japan Needed?" July/August 1998). He proposes that in 2000 Japan should stop financing U.S. troops and take back two key naval bases.

The Japanese favor reducing the number of U.S. troops stationed on their soil. But because of deep concerns over Asian stability, most disagree with Hosokawa on how to downsize the U.S. presence. Hosokawa underestimates the threats to Asia's stability, from North Korea to Indonesia, China to India. Without an American presence in the region, Japan would be jeopardized. Any changes in the alliance or reductions in forces must be made carefully, after an informed debate by the people and their elected officials in both Japan and the United States. This is not just a debate for foreign-policy specialists. Americans rarely hear about and cannot appreciate

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the depth of Japan's commitment to the U.S. military presence—in dollar terms, $4 billion per year.

There is a growing consensus in Japan, however, that it must eventually provide for its own security. For this to occur, U.S. forces, particularly ground troops, must be downsized. U.S. bases in Okinawa are the most controversial and should thus be addressed first. Talks on the U.S.-Japan Status of Forces Agreement should also start. This agreement has not been altered since its 1960 inception. In Germany, the Status of Forces Agreement has been renegotiated five times, most recently in 1993, when provisions addressing labor rights, the environment, noise pollution, and the jurisdiction of German courts over foreign military personnel were added. A similarly updated agreement would greatly relieve Japanese concerns over the U.S. presence.

In the post–Cold War world, nations cooperate with each other rather than confront an enemy. Although it has been slow to embrace this new spirit, the United States must recognize that Asia's long-term security is too big a job for it to handle alone. Asian stability continues to be precarious. Japan and the United States not only must renew their alliance, they must endorse preventive diplomacy and create an environment in which a reduced U.S. military presence does not stoke fears of instability. First, Japan must solve its economic problems so that fears of a Japanese devaluation do not continue to threaten Asian economies. Second, Japan and the United States should convene an "Asia-Pacific Comprehensive Security Dialogue" in which all regional nations could frankly discuss issues of mutual economic, political, environmental, and military concern. This would build confidence and trust in Asia.

Only then, in an atmosphere of collective goodwill, can Japan start to think about significant American troop reductions. Hosokawa's frustration with the current state of the U.S.-Japan relationship is understandable, but that relationship cannot be changed hurriedly or unilaterally without endangering Japanese and Asian security.

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